

Moving Forward with Economic Conversion and Diversification in Russian Nuclear Cities

Community Based Economic Development

Lessons Learned from U.S. and Russian Nuclear Cities

WORKBOOK



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Moving Forward with Economic Transition

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About the Organizations

Energy Communities Alliance

In 1992, local governments adjacent to U.S. Department of Energy (DOE) nuclear weapons facilities created the Energy Communities Alliance (ECA) to represent their interests at a federal level, to play an important role in helping U.S. communities that host DOE facilities to redefine their roles and responsibilities, and to convene local governments to share information and ideas. U.S. communities surrounding DOE facilities have undertaken significant changes and have, in many cases, developed models for diversifying their economy, planning, and creating new jobs. While all communities in the ECA have worked diligently to maintain their Cold-War level of economic activity, replace lost jobs, and diversify their economies, they continue to grapple with many of the same issues as their Russian counterparts. Some U.S. communities focus on diversifying their economy while maintaining a continued national defense mission, while others grapple with facility closure and how to reuse the land and create employment for displaced workers in a non-defense economy.

Association of Closed Cities of Russia

In 2000, the Ministry of Atomic Energy (Minatom), the Ministry of Treasury, and the Ministry of Economics of the Russian Federation established the development program for Closed Administrative-Territorial Units (*zakrytom administrativno-territorialnom obrazovanii*, ZATO). Under this program, the Association of Closed Cities of Russia, whose members are the chief administrators of ZATO cities, works with the Russian Federation to determine what projects are needed and what funding is required to facilitate the transition from closed nuclear cities to open, viable economic centers.

International City/County Management Association

Since the end of the Cold War, the International City/County Management Association (ICMA) has assisted communities throughout the former Soviet Union and Central and Eastern Europe with the transition from a command to a market economy, and the transition from reliance on central government funds to financial self-sufficiency. A hallmark of ICMA's international technical assistance and training has been its utilization of experienced U.S. city managers, finance directors, public works officials, and economic development directors with the ability to engage counterparts as professional peers and help them fashion pragmatic solutions to urban problems.

Nuclear Cities Initiative

In September 1998, a U.S. and Russian Agreement created the DOE National Nuclear Security Administration's Nuclear Cities Initiative (NCI). NCI, along with the Initiatives for Proliferation Prevention, is part of the Russian Transition Initiatives, one of the National Nuclear Security Administration programs that address nonproliferation and threat reduction. NCI is tasked with increasing U.S. national and global security by removing functions and equipment from the Russian weapons complex; reducing the physical footprint; and creating sustainable, alternative non-weapon work leading to the irreversible, transparent downsizing of the weapons complex.

Foreword

The transition of a national defense facility for a community is a difficult proposition. Throughout the transition of the U.S. cities adjacent to nuclear weapons facilities one thing has assisted in permitting transition – a vision of the future. Each economic development project and exercise is one that the local community dealing with a transition supports. Without the future vision, the community has always fought any closure and any change. The only way to succeed in economic transition is develop a future vision and for a community the future vision is a community that flourishes.

More than 50 years ago, the first U.S. and Russian nuclear laboratories and weapons production facilities were built. During the Cold War that ensued, numerous other nuclear weapons production facilities were built around each country. While economic benefits accrued to these communities in support of the facilities and the specially trained scientists, the local economies became dominated by and dependent upon the facilities.



The U.S. cities that were closed because of their sensitive national missions became “open” cities in the 1950s. However, the Russian cities with similar missions remain “closed” today. Whereas U.S. local governments have tried to restructure and diversify their economies since the 1960’s in some cases, the Russian cities have just begun the process.

The similarities between U.S. and Russian nuclear communities, and their uniqueness compared to non-nuclear communities, are unquestionable. The nuclear communities’ fates have until now been tied to each country’s reliance upon a nuclear deterrent for national security. Both U.S. and Russian communities were created in secrecy, grew tremendously during the Cold War, and are now feeling the economic, social and health impacts of the end of the Cold War. In addition to national security issues, the nuclear communities must adapt to a drastically changed economic situation. Nuclear communities are faced with lower revenues with which to support the community infrastructure and must create new employment opportunities for highly educated scientists, engineers, and specialized workers who formerly developed nuclear weapons and other highly sensitive weapons. The nuclear communities must work closely with the national government, which is still many communities’ primary employer.

Since 1999, under the Nuclear Cities Initiative (NCI) (now commonly referred to as the Russian Transition Initiative (RTI)), three organizations began working together toward

greater economic autonomy for both countries' nuclear cities. With the belief that sharing lessons learned during the transition of U.S. and Russian nuclear cities, especially since 1991, would achieve this objective, the Energy Communities Alliance (ECA), the Association of Closed Cities of Russia (ZATO), and the International City/County Management Association (ICMA) forged a relationship. What we have learned from our shared experiences is that the path to economic autonomy is long, uncertain, and difficult. World events and events in each of our respective countries have served to derail the work started by the partnership of the three organizations since 1999. But we have learned much, and this chapter is an attempt to document these lessons.

[Insert Picture of ECA and ZATO meeting of U.S. and Russian Mayors in Schnesinsk, Russia, January 2001]

First, although economic restructuring at any level of government is a daunting task under the best of circumstances, it is dependent on simple economic principles:

- Private entities, not government, create wealth.
- Physical infrastructure contributes to a community's comparative advantage.
- Efficient and effective public institutions reduce the costs of production for the private sector.
- Local economic development programs should support private sector activities and be executed in partnership with the national government.
- Employment opportunities improve the overall wealth of the community.

To succeed, local governments must be able to enter into negotiations, be facilitators of actions, and have vision. For nuclear cities in both countries, concerns about the national security of the respective nation add a serious challenge to economic restructuring that is not faced by other communities. This chapter, *Moving Forward With Economic Transition*, examines the challenges faced by nuclear cities in the context of history and current events. Section 1 relates the history of the opening of the U.S. and Russian nuclear cities. Culled from the history, Section 2 of the chapter addresses the political will required to achieve the overall objective of creating employment in non-defense related activities, using cases from U.S. nuclear cities and other cities in Russia to illustrate practices that lead to success. Finally, Section 3 provides a community-based action planning process that has worked in post-Soviet economies and describes actions that local governments can take to change the economic conditions of their communities.

United States and Russia: A Shared History of Nuclear Cities

The United States and Russia's experience in changing the structure of the relationship between federal governments and nuclear city complexes has converged in the last few years; however, in reading their histories, one sees how different a path the two countries have taken given the differences in their respective economic structures. In the United States, the history of the cities corresponds to the economic and governing frameworks: the cities were first federal closed complexes in the 1940s, then moved to openness and self-governance in the 1950s, and finally achieved more economic independence. The transition in Russia started recently and also reflects the economic and political framework of the Federation; the stages reflect this framework and are defined as phases of conversion. Although very different, the histories describe the common foundation on which local governments must build if they are to become open cities that can function competitively in a market economy.

United States Transition:

1945-1954 Federal Complexes

1954 Self-governance

1989-1992 Begin Transition and Closure of Several Facilities

Present Transition towards economic independence

Russian Conversion:

1945-1988 Federal Complexes

1988-1992 Federal Complexes Phase 1 – Federal Restructuring of Facilities

1992-1995 Federal Complexes Phase 2 – Commercialization of Technology

1995-1997 Federal Complexes Phase 3 – Introduction of Market Based Commercialization

1998-Present Shift from federal Complexes to Federal Governance with Support of Market Based Commercialization

Closed Cities: The United States in the 1940s

Federal Complexes

The United States began its involvement in the production and testing of nuclear weapons during World War II with the “Manhattan Project,” a nationwide engineering and industrial effort to protect national security. The U.S. Army Corps of Engineers (the Corps), under the direction of President Franklin D. Roosevelt, was tasked with all atomic energy activities of the United States. In 1942, the Corps established the Manhattan Engineer District (MED) to manage the project, and the MED set about creating scientific and industrial research centers throughout the United States.

During the next three years, the MED set up facilities in Washington, New Mexico, and Tennessee, establishing the communities of Richland, Los Alamos, and Oak Ridge, respectively. These facilities were distanced from existing communities to meet security purposes and built to house atomic energy plants and employees. The communities were federally owned and managed, complete with educational institutions and commercial centers made to attract scientists and other skilled employees needed to participate in the engineering and industrial effort. Each community was “closed,” and residents required

passes to enter. In fact, the communities did not exist on maps and were considered “secret” cities.

As the MED grew in size and complexity, tension between military and civilian personnel working on the Manhattan Project also grew. To remediate the tension and establish clear lines of authority, the U.S. Congress, under the Atomic Energy Act of 1946, established the civilian-controlled Atomic Energy Commission (AEC or the Commission). The AEC controlled all production, ownership, and use of atomic energy. The Atomic Energy Act also authorized the AEC to acquire all property in the custody and control of the MED. By the time the AEC took over atomic energy activities, the federal government had constructed a very large contractor work force across the country, and this vast system of research, production, and testing became known as the nuclear weapons complex.

Transition from a Closed to an Open City

In 1955, the U.S. Congress passed the Atomic Energy Communities Act (the Act, See *Appendix A*) in order to remove the federal government from the business of owning and governing the energy communities throughout the nuclear weapons complex. The Act terminated government ownership and management of the communities in order to:

- Facilitate establishment of local self-government
- Provide for transfer to local entities of municipal functions, municipal installations and utilities
- Provide for the orderly sale to private purchasers of property within those communities with a minimum of dislocation.¹

Under the Act, the AEC was able to plat each community, establishing lot boundaries, and to secure appraisals of all property the Commission intended to sell (the appraised value of the property was required to be at the current fair market value of the federal government’s interest in the property). The Act also instructed the Commission to classify all real property within each of the communities. Authority was granted to the AEC to dispose of all unneeded real property for residential, commercial or industrial, agricultural, and church or other nonprofit use.

To minimize the number of dislocations within the communities and to keep the personnel essential to the AEC from relocating, the Act directed the Commission to determine fair property rights, giving preference to people connected with the Commission and to the current occupants of houses (tenants were given 90 days to exercise first right of priority). Notice of sale to those with first rights of priority identified the property and stated the terms and conditions of the sale, while property that did not have priority rights was given to the highest bidder.

Under the authority established by the Act, the Commission could reduce the sale price for purchasers of residential property by 15 percent. Deeds and leases were the real estate property transfer documents, and the Act stated that deeds used to dispose of the property could contain any warranties, covenants of title, or indemnity from liability the AEC felt

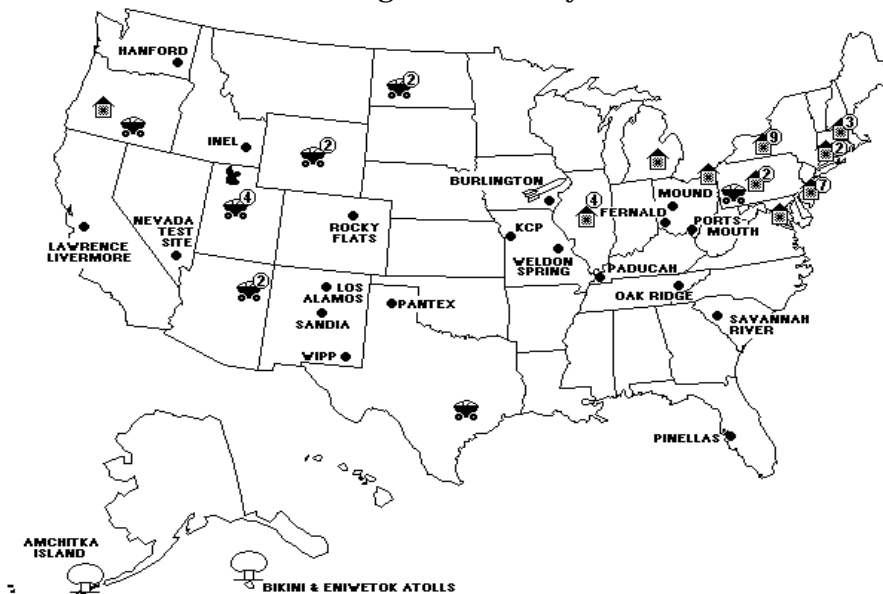
¹ Atomic Energy Communities Act of 1955, as amended. 42 U.S.C. § 2301 et seq..

appropriate. If property purchasers chose, the Commission could indemnify (for up to 15 years) the purchaser any successor in title (the person who acquires the real property from the first purchaser) against a loss and if purchasers elected not to receive indemnity, they were eligible for a reduced price (even lower than the 15 percent deduction) on the property.

For those purchasing residential or commercial property who could not pay the full price (and for whom other financing solutions were not available), the Commission accepted partial payment through notes secured on first mortgages. The AEC was able to sell the notes and mortgages acquired.

The Act appropriated money for construction, modification, or expansion of municipal installations and utilities in Oak Ridge, Richland, and Los Alamos. The Commission was granted the authority to transfer utilities to help meet community needs for adequate utility services. Local governments were able to receive the utilities at no cost, while other transferees, such as the state or businesses, were charged a fee. The Act also allowed for the Commission to assist communities with local self-government by the transfer of school, hospital, and other municipal services, at no cost.

Special assistance provisions were included in the Act, in order to create a transitional period of local self-government for communities. The assistance to local governments came through annual payments for a 10-year period (extensions of payment were determined by the AEC and future agencies governing atomic energy activities) and special interim payments to mitigate burdens from requirements under the law, or tax lapses.



Over the next 20 years, the U.S. Congress established the Nuclear Regulatory Commission and the Energy Research and Development Association to oversee atomic energy activities, abolishing the AEC. In 1977, the Department of Energy Organization Act created the DOE as a cabinet-level agency to oversee the actions of the nuclear weapons complex.

Economic Independence

DOE's focus during the 1970s shifted to energy development and regulation, and weapons production facilities saw a slight decrease in their contractor work force numbers. However, with the increase in Cold War tensions the 1980s saw an increased focus on nuclear

weapons research, development and production and therefore an increase in the work force at DOE weapons production facilities.² The atomic energy communities' transition to self-government and economic self-sufficiency was aided by the defense mission at the DOE facilities.

When the Cold War ended in the late 1980s, the U.S. began to reduce its arsenal of nuclear weapons, and the mission at DOE facilities shifted from defense to environmental cleanup, weapons dismantlement, and science and technology research. This shift in mission was the beginning of a downsizing in the contractor work force at the DOE facilities, and the beginning of another transition for communities surrounding the facilities. For those communities in the early stages of self-government, which were still reliant upon assistance payments from the federal government, the downsizing of the nuclear weapons complex came as a significant setback to their economies.

In an attempt to mitigate the impacts of DOE's downsizing across the nuclear weapons complex, the U.S. Congress passed Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 (P.L. 102-484). Section 3161 required DOE to develop an annual plan for restructuring the work force at defense nuclear weapons facilities affected by the decrease in nuclear weapons production after the end of the Cold War. The plan also had to address how DOE would work with the affected communities surrounding DOE facilities.

In 1994, DOE established the Office of Worker and Community Transition (WT) to assist communities impacted by DOE facilities with economic adjustment assistance and the implementation of the work force transition plans at individual DOE facilities, under Section 3161. WT attempts to mitigate restructuring impacts by minimizing social and economic effects, giving workers adequate notice of impending changes and providing relocation assistance, minimizing involuntary separations, and offering preference-in-hiring to involuntarily separated employees.³

The other goal of WT is to provide financial assistance to those communities impacted by the change in mission at DOE facilities and the downsizing and restructuring of the Department's work force. Under the umbrella of WT, DOE encourages energy communities to establish community reuse organizations (CROs). WT funding supports the CROs, which in many communities are the drivers of economic development and diversification activities in coordination with local governments.

According to WT guidance, CROs should be formed "for the purpose of addressing the regional economic impacts in the affected communities as a result of the changes in the work force at a defense nuclear facility." CROs may be formed from existing organizations focused on local or regional economic development. Also, WT selection criteria for funding

² U.S. Department of Energy. "History and Overview." <http://www.energy.gov/aboutus/history/overview.hist.html>.

³ U.S. Department of Energy. "Annual Report on Contractor Work Force Restructuring." March 1998. DOE/WT-0005.

a CRO suggest that the organizations “solicit and accept participation by a reasonably representative cross section of regional public and private sector interests.”⁴

Over the past decade, DOE funding for community economic development activities has declined significantly. In the early stages of implementing Section 3161 and the first few years that WT funded community activities, large amounts of money were given without the proper community transition plans in place to implement economic development activities. The large amounts of money did nothing to help solve the problems for the long term. In the past, program and project assistance from WT ranged from \$400,000 to \$5 million per year at each site. However, due to recent Congressional cutbacks, total WT funding is about \$24 million per fiscal year, and DOE must now exercise more discretion when allocating the money to both workers and communities.

For many communities the transition from complete reliance on the federal government to independent economic sustainability has been difficult, but working together can ease the difficulties. In 1992, several local government officials from energy communities across the U.S. nuclear weapons complex formed the Energy Communities Alliance (ECA). ECA’s mission is to bring together local government officials in DOE-impacted communities to share information, establish policy positions, and advocate community interests in order to effectively address an increasingly complex set of constituent, environmental, regulatory, and economic development needs.

Since inception, ECA has grown to include most U.S. communities impacted by DOE activities. Using the network established by ECA, energy communities have begun to apply the legal tools available to them for reuse of DOE property and have worked with Congress to establish new laws governing the reuse of DOE property that support community economic development and diversification.

Today, throughout the nuclear weapons complex, activities to end energy communities’ dependence on the federal government are ongoing. The communities are still seeking independence by acquiring municipal functions from DOE. For example, DOE conveyed a water treatment plant to the city of Oak Ridge in 2000, and a water system to the county of Los Alamos in 2001.

Russia’s Conversion of Minatom Defense Complex Enterprises

Phase 1: Formulation of the Conversion of Defense Enterprises

The conversion process of Minatom enterprises, which began in 1988, has occurred in phases in accordance with the changing economic situation. The first phase (approximately 1988–1991) established the conversion process for industry. During this phase, Minatom formulated the concept of conversion and developed major, federally funded conversion programs that targeted the entire product life cycle: marketing, research and development (R&D), design & engineering, creation of pilot production, creation of full-scale production,

⁴ U.S. Department of Energy. “Draft Policy and Planning Guidance for Community Transition Activities.” June 2001.

and production and sales. In the first phase of the conversion process, the following manufacturing sectors were priorities:

- Agricultural equipment
- Consumer goods
- Medical equipment
- Computer equipment.

Capital investments under the conversion programs were directed primarily toward the creation of production capacities in the manufacturing of agricultural equipment. Products of the first phase were agricultural equipment, consumer goods (mainly audiovisual equipment, television sets, and personal computers assembled from imported parts). Simultaneously, Minatom developed new conversion programs (for microelectronics, advanced materials, energy complex equipment, and reactors with high safety features). The ministry also carried out R&D and demonstration & validation projects in the framework of these programs.

The first phase differed from subsequent phases in the significant efficiency of fund utilization and in the actual usage of the increased capacities for product manufacture (the capacity operation ratio was 0.94). During this period 14,000–16,000 jobs were created in Minatom enterprises. Even though science-heavy technologies are inherent in Minatom enterprises, conversion programs in this phase were not oriented to high-tech products. This failure to capitalize on the enterprises' competitive advantages resulted in the inability of the consumer goods produced to compete with imported goods pouring into the Russian market. Therefore, previous approaches to enterprise conversion had to be modified.

Minatom reconsidered the priorities for conversion programs, which became as follows (listed in order of decreasing priority):

- Energy complex equipment
- Medical equipment
- Microelectronics
- Advanced materials
- Agricultural equipment.

Phase 2: Research and Development

During the second phase (1992–1995), Minatom completed R&D and validation projects, which allowed for the selection of key conversion programs. The creation of production capacities also began in new conversion programs. This phase of the conversion took place in a situation of sharp reduction of federal defense contracts and funding cuts for science and industry.

A drop in production and sales of products characterizes this phase, as well as an increase in science-heavy products of conversion programs, such as advanced materials, microelectronics, and equipment for the energy complex. The conversion programs were funded by means of low-interest federal loans and enterprise capital. The efficiency of fund utilization

was relatively high (the efficiency coefficient was 1.87), but the capacity operation ratio was only 0.21. The number of jobs created during 1992–1995 was 5,000.

Phase 3: Market Competition

The third phase (1996–1997) was characterized by a sharp reduction of federal defense contracts and cuts in the funding of conversion programs. The conversion programs were funded by means of revenue from sales of low-grade uranium, federal funds, and enterprise capital. Minatom modified the conversion programs and changed its priorities as follows (listed in order of decreasing priority):

- Silicon
- Equipment for the energy complex, including equipment for nuclear power plants
- Transport
- Medical equipment
- Agricultural equipment.

The majority of products in this phase (66 percent of total produced products) were supplied from the programs for energy complex equipment, microelectronics, and advanced materials. The efficiency of fund utilization had dropped (the efficiency coefficient was 0.36), while the capacity operation ratio was 0.53. The number of jobs created during 1992–1995 was 1,500.

There were several reasons for the decrease in the efficiency of fund utilization in the second and third phases. First, the reorientation to science-heavy conversion programs substantially increased the cost of projects, on the one hand; and funding cuts and delays, on the other hand, increased the duration needed to begin manufacture and the number of uncompleted conversion projects.

Secondly, the absence of a tough, competitive process for project selection led to the funding of some conversion projects that were not targeted toward solving strategic problems of industry. These projects were not based on the scientific and technical potential of Minatom enterprises and therefore did not create sustainable jobs suitable for workers released from federal defense projects.

The restructuring of the atomic industry, and especially the nuclear weapons complex, was implemented through the following programs: “Structural Reconstruction of Production and Economics of the Russian Federation Ministry of Atomic Energy in 1993–1995” and “Development of the Russian Federation Ministry of Atomic Energy in 1995–1997.” The number of workers in the nuclear weapons complex decreased by half due to the restructuring. Federal defense contracts decreased to only 15 percent of the 1990 amount, and the share of defense products in total production of the atomic industry was 7 percent (compared to 36 percent in 1990). Production of highly enriched uranium stopped, 10 industrial reactors for weapons-grade plutonium ceased operations, and natural nuclear testing was prohibited.

A large state-owned enterprise, Rosenergoatom, was created. Companies and joint stock enterprises were created on the base of major agencies of Minatom: open stock company “TVEL,” stock company “Atomredmetzoloto,” open stock company (holding) “Spetzstroimaterialy,” stock company “Atomstroy,” open stock company “Spetzatommontazh,” stock company “Atomprom,” stock company “Tehcsnabexport,” “Atomprompesurcy,” holding company “Progress,” stock company “Oboronpromcomplex,” open stock company “Atompromresursy,” All-Russian Industrial Amalgamation “Zarubezhenergostroy,” closed stock company “Karimos,” stock company “Polyanka.” A large number of enterprises and organizations in the atomic industry were transformed into stock companies.

A significant part of the capacity tied to radiation-hazardous production could not be redirected or privatized by attracting foreign investors. In addition, 10 closed administrative territories (ZATO) are part of the atomic industry, and the problems of industry are most acute in ZATO.

Implementation of the conversion in 1989–1997 resulted in insufficient efficiency because the conversion of enterprises was not tied to the structural transformation carried out in major industrial sectors.

Phase 4: Organizational Restructuring

The fourth phase (1998–2001) was characterized by improvements in the structure of the atomic industry and the development and production of science-heavy, competitive products. The priorities for conversion programs in the fourth phase matched the balance of Minatom’s consolidated funds and tasks:

- Silicon
- Equipment for the energy complex
- Microelectronics
- Electrical equipment
- Medical equipment.
- Dairy equipment
- Others.

The principal sources of conversion funding were the Target Budget Fund (TBF), central conversion funds, and enterprise capital. The majority of production output in the fourth phase (60 percent of the total) was provided by three programs: microelectronics, equipment for the energy complex, and “others.”

The federal program targeted at the restructuring and conversion of the defense industry in 1998–2000, and the incorporated subprogram “Restructuring and Conversion of Enterprises of Atomic Industry (Nuclear Weapons Program) in 1998–2000,” was approved by Russian Federation Government Decree #625 of June 24, 1998. (Russian Federation Government Decree #1034 of December 30, 2000, extended the program implementation period to 2001.)

The principal goal of the subprogram was:

The improvement of the organizational, technical, and production structure of the atomic industry in conditions of downsizing nuclear weapons and prohibiting nuclear testing; as well as reorganization of design and full-scale production of science-heavy, competitive products for providing safety in nuclear power plants and satisfying demands of domestic industry; securing scientific, technical, production, and personnel resources of the atomic industry.⁵

The subprogram envisioned the manufacturing of civilian products and consumer goods with an estimated total value of 4,400 million rubles (in 2001 prices). The tasks for implementing the conversion program were designed to include not only the nuclear weapons complex but also all auxiliary industries:

- Nuclear energy (nuclear power plants and fuel production)
- Fundamental research
- Uranium mining industry
- Atomic machine and device building
- Construction/assembling.

The subprogram planned to harness the scientific-productive potential of the nuclear weapons complex and auxiliary industries by:

- Creating integrated structures
- Designing rational schemes for specialization and cooperation of enterprises
- Reconstructing enterprises and equipping them with capital assets for experimentation, testing, and production.

In 1998–1999, Minatom created a new structural unit, the Department of Conversion of Atomic Industry (DCAI), to increase the efficiency of industry reforms. The principal tasks of DCAI are to:

- Provide leadership and government regulation of enterprise activities in restructuring and conversion.
- Develop new science-heavy and strategically significant directions of scientific-productive projects in atomic energy that will aid key domestic industries.
- Together with the Department of Social Policy, Production Relations and Human Resources, implement government policy for job creation in ZATO and promote the implementation of employment programs in ZATO.
- Preserve and effectively use existing productive and innovative potential, the framework for modernization, and the enterprises' capacity to produce technical equipment, with the goal of implementing high-tech economic development projects.
- Promote the manufacturing of import-substituting, competitive products; products with no comparable foreign substitutes; new technological processes; and modern consumer goods.

⁵ Russian Federation Government Decree #625 of June 24, 1998.

- Establish central conversion funds, non-budget funds, and other funds; use financial resources from the federal budget and non-budget funds of Minatom rationally; provide revolving and interest-based funding; and attract strategic investors.
- Prepare proposals for required funding (annual and multi-year) for conversion and restructuring programs.
- Implement enterprise restructuring and conversion programs.
- Coordinate the marketing of industrial products manufactured in the framework of conversion projects.
- Cooperate with the atomic industry council in exhibition activities and marketing and engage Minatom enterprises and organizations to participate in fairs, exhibitions, conferences, workshops, and symposiums on conversion and restructuring.
- Promote international cooperation in conversion and restructuring.

Conclusion

The transition in the U.S. and Russia is vastly different. The politics of the countries has also been vastly different. However, the goals of the cities are now similar – more independence and ensuring that the community’s quality of life remains the same or improves. Transitioning cities are defining their futures and working towards those goals. The transition is a difficult process, however, by utilizing lessons learned and models of successful and innovative transition utilizing the local communities assets. The transition from a closed city to a open an prosperous city can be successful.

The following chapters provide examples and recommendations for contending with the transition and developing reality market based approaches to reuse, redevelopment and transition.

Opening a Closed City

Whether in Russia or the United States, the conversion of nuclear complexes from defense production to commercial production will only be successful if barriers to markets can be eliminated. Access to goods and markets is essential. Nuclear or closed cities have many barriers to markets; thus, the road map required to create a competitive market environment is multifaceted and complex.

The prior section laid out the legislative paths taken by each country in regard to intent: the conversion of nuclear complexes from defense to commercial use. In addition to legislation, communities must undertake specific practices to create viable commercial firms. Effective local economic development programs result in increased availability of land, and improved revenues from which governments finance public services and appropriately match labor forces with labor demand. The next two sections look at adding value to community resources and using community resources effectively and efficiently—especially in economic transitions such as have occurred in Russia.

Adding Value to Community Resources

One of the most crucial community resources is property (defined as land, buildings, and equipment). Property forms the base from which communities can realize multiple objectives of economic development programs. It provides the collateral for financing investment, is the base on which locally generated revenues are raised (i.e., property tax), and provides security and stability to the economic base.

Equally important but more difficult to reengineer is the labor force. Nuclear cities have advantages over most other cities in the United States and Russia in that they have a highly educated and trained labor force. The challenge in reengineering the labor force is to match the workers' skills with the production of commercial goods and adjust the use of skills to fit the structure of a highly competitive commercial market. Changes in attitudes of local government officials and their staffs related to their new role and the value their role can add is imperative to sustainable investment and development.

What follows are highlights of cities in the United States as they relate to adding value to community resources. Since DOE began downsizing, communities adjacent to DOE facilities have experienced both successes and failures in their attempts at job creation and economic diversification programs. The following highlights the lessons learned by several communities, local CROs, and economic development organizations affected by DOE facilities.

Understanding the System And Making It Work For Your Community

The following is a “Top Ten List” of things to know and do when dealing with defense transition. It was developed from the experiences of one local leader, Paul McCarthy from the Village of Glenview, Illinois. The Village dealt with the closing of Naval Air Station Glenview, a 1,045 acre Naval Air Reserve Training Base, which was identified for closure as a part of the U.S. military base closures in 1995. This “Top Ten” is modified to provide

guidance and insights to all local governments entities that are attempting to create new and reuse transitioning defense facilities.

1. It is okay to feel confused - the laws are very complex. Learning to live with ambiguity will pay dividends throughout the process of acquiring and reusing former federal properties.

2. Be flexible in your planning and implementation.

Priorities change at light speed, and require your organization to be fluid enough to respond to the crisis of the moment. Set plans must be able to be amended based upon issues impacting your community, whether it is economic or other conditions.

3. Do your homework, but do not focus only on the rules.

Learn the motivation behind your federal agency, and recognize that each agency is different. Their missions and cultures are different. For example, some branches of the U.S. armed forces, have recognized that their true cost savings as a result of federal facility closures are found in cost avoidance. Strategies to maximize that motivation should be used.

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| <p>Top Ten</p> <ol style="list-style-type: none">1. It's OK to Feel Confused2. Be Flexible3. Do your Homework4. Never Forget your Service Branch5. Establish a Good Reputation6. Every Case is Different7. There is no Magic Pill8. Include all the Stakeholders9. Do not Rely Solely on Logic10. Speak with One Voice |
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4. Never forget about your federal agency and establish a personal relationship with people that are making decisions.

5. Establish a reputation for being competent, keeping your word, working hard for the same goals, and for being a reliable business partner.

Save your silver bullets for critical events. This concept goes hand in hand with number four above. If an organization makes a habit of going around the specified process, those that are vested with the responsibility of making the process work will view that organization with less credibility. This reduces your organization's effectiveness in the economic development, marketing and redevelopment world. Give people the opportunity to do their jobs and solve your problem.

6. The government wants to have a standard set of rules, but every case is different.

The federal government needs the flexibility to respond to the different needs of each federal facility closure. Real estate markets are different, local issues are different, site constraints are different, and environmental issues are different. Help the agency understand the differences.

7. Do not rely only upon consultants or political influence - there is no magic pill.

In the final analysis, the local community has to live and die with the economic development and land use decisions that are made. As a result, this community has been reluctant to turn the ignition keys of the planning and implementation "vehicle" over to any other organization or entity, including consultants, or rely on political influence to help the

federal agency see the community's point of view. The role of consultants is best described as filling the gaps of your organization. This requires community leaders to identify the strengths and weaknesses of its economic development and reuse planning and redevelopment team. For example, in one community, the city created a consultant team was created to provide a quick response to the need to plan for reuse of the closing military facility. The Consultant Team focused on needs identified by community leaders, including the need for detailed data and information to assist the leaders in formulating their conclusions.

In both the planning and implementation stage, the community used Consultants to provide the real world marketing information as a backdrop for success. One of the community's fears was that a politically popular and colorfully drawn land use plan would be created, but it would not be sustainable by the real estate markets that exist. As a result, the community would miss the opportunity to achieve federal and local goals of redevelopment and job creation. This private sector experience, knowledge, and information will truly complement that which exists within the planning and implementation organization.

Communities can benefit from using various federal and international economic development agencies that work as competent partners in economic development and help provide financial assistance for planning and implementation. The liaisons can provide timely information with regard to navigating these newly charted waters, and will assist the community in maximizing the probability of success with economic development and reuse.

This is not to say, however, that, after all the homework is done, political or legislature pressure will not be needed. Particularly at the final stage of the decision-making process, a little political push might be needed to overcome organization inertia, or to ensure that your project is considered important enough to be acted upon relative to other applications which are competing for the attention of politicians or bureaucrats. It may be necessary to use congressional or presidential pressure to force people within the bureaucracy to do "the right thing," even if "the right thing" is politically unpopular within Washington D.C. (or Moscow).

8. Bring in all of the stakeholders - people cannot complain about the process if they are at the table.

In addition, groups of people acting together can accomplish amazing things. Former members of the reuse planning Task Forces usually become "champions" for the reuse plan and the planning process.

9. Sometimes you need to do things that are counter-intuitive.

Again, this deals with the motivation of each federal agency. Each federal agency approaches economic development, reuse and closing of federal facilities differently. Do not assume that the service is motivated by same point of view. It may want something from you which you find counter-intuitive. For instance, when one city bought a golf course from the federal government, the federal officials did not want to be paid in cash. Instead, the money was put into an escrow account, and was used to build a day-care center for federal housing which will remain within the federal service and the community.

10. Speak with one voice -

Federal leaders will be more supportive of communities that are unified in their goals and desires.

Politics and Legislation

The opportunities for U.S. communities arose out of the political activism of U.S. communities. From the beginning of the opening of the cities to the current system, the federal government's response to communities was based out of the communities and their citizens need to succeed. The laws and the funds did not come from the benevolence of the U.S. government.

The first law dealing with energy communities was created in the 1950's the Atomic Energy community Act. The last law dealing with energy communities was passed last year (almost every year a new law is written that impacts the activities of the U.S. energy communities. The changes in the laws have dealt with everything from conveying homes to local citizens to conveying large portions of the former weapons facilities to local government and local reuse authorities for reuse. Further, every year the communities work with their elected representatives to ensure that funding exists for retired and sick workers and community economic development (although the funding levels vary and have been decreasing over the past several years. Another key federal budget item is for the environmental wastes that have been created by the activities at these facilities. The communities have been instrumental in ensuring that the federal government does not just close many of the facilities without first ensuring that the health and safety of the community is protected.

How do the U.S. communities change the laws on an annual basis? The short answer is that the local elected officials, the citizens, the businesses in the community and the current and former workers ensure that the federally elected officials understand the needs of the communities. Further, the energy communities coordinate many of their efforts across the country to ensure that multiple federally elected officials work together to change the whole system to benefit the local community. The U.S. legislative system works on an annual basis, so the communities meet once a year in Washington, D.C. at the beginning of the legislative cycle to discuss key issues and then follow-up on the issues throughout the year individually (and sometimes jointly depending on the issue that year that the communities are addressing) with the community's federally elected officials.

As an example of the changes in the law, look at the Atomic energy Community Act in Appendix 1. the law has been amended over 20 times and at least one community is trying to amend the law again this year to amend the portion relating to federal assistance payments.

The following section outlines some examples of community based activities. The ability to accomplish the activities, borrow funds in a market economy, acquire personal property and infrastructure all were as a result of changes in the U.S. laws to benefit U.S. energy communities.

Economic Development and Transition at U.S. DOE facilities led by local communities

1.3.1.1 Local Leadership: Miamisburg Advanced Technology Center

DOE's Miamisburg Environmental Management Project (formerly the Mound Plant) is located in Miamisburg, Ohio, and is targeted for a 2006 closure by the Department. The major driver of reuse for the surrounding community is the Miamisburg Mound Community Improvement Corporation (MMCIC). The MMCIC is a nonprofit entity tasked with economic development and commercialization of the DOE facility, referred to as the Mound Advanced Technology Center (MATC). The MMCIC entered into a contract with DOE in 1998 to acquire the property in individual parcels, under Section 161(g) of the Atomic Energy Act, as DOE remediates excess property under the Comprehensive Environmental Remediation and Response Act (CERCLA).

Currently, the MMCIC leases the parcels transferred by DOE to businesses for commercial development. While the transfer of property to the MMCIC has helped the local economy, the remediation of further parcels of land is a slow process,

MMCIC marketing identifies advantages to locating a business at a the Mound facility:

Site Features / Advantages

Within the Mound Advanced Technology Center's nurturing environment, you will find the keys to your company's success. We offer important benefits that can help your business become more competitive and prosperous.

Take a look at the advantages we offer:

- prime real estate available for building in various lease/ownership arrangements
- existing spaces for office, laboratory and light-manufacturing uses
- state-of-the-art IT infrastructure to meet the data-transfer requirements of businesses today
- electrical system redundancy critical to many types of companies
- brand new site improvements including roadways, infrastructure and parking facilities
- on-campus access to companies that provide high-tech services
- security
- incentives
- great location
- an attractive, business-friendly community
- tremendous amenities
- award-winning school system



This unique and powerful combination of features makes the Mound Advanced Technology Center a prime location for a new business to take root and grow in our nurturing environment... or for an established company to expand and prosper in a high-tech setting.

1.3.1.2 Mainstream County and Regional Industrial Development: Pinellas and Savannah

Pinellas STAR Center

The Pinellas Plant has been part of the DOE nuclear weapons complex since 1957. The Plant's former mission was to manufacture neutron generators and other components. In 1993, the Department announced a decision to close the Plant and eliminate approximately 1,200 jobs as part of plans to reconfigure the nuclear weapons complex. The community surrounding the 96-acre Pinellas plant in Largo, Florida, formed the Pinellas County Industry Council (PCIC) in 1994. In 1995, DOE transferred the Pinellas Plant to the PCIC and began leasing back the property in order to complete decontamination and decommissioning activities. After transfer, the facility was renamed the Young - Rainey Science, Technology and Research (STAR) Center.

DOE transferred the property to the PCIC under the legal authority of Section 161(g) of the Atomic Energy Act, because PCIC's use of the property was in line with the goals of nuclear research and development activities. The PCIC leases the STAR Center to firms that can take advantage of the remaining high-tech industrial equipment on the property. This arrangement enables the community to benefit from the existing capabilities at the Pinellas site.

The STAR Center, is owned by the local government, Pinellas County, which promotes high-tech investment in the community by leasing space to high tech companies and other organizations. There are 25 such organizations on the site that provide synergistic opportunities for each other. There are two universities on site offering advanced education in computer science, and engineering disciplines. Companies and individuals on site can also receive training in the quality engineering and quality management areas. Other technologies on site include hybrid circuitry, digital ballistics imaging, chip scale packaging and recycling of electronic hardware.

Savannah River Site

DOE activities at the Savannah River Site (SRS) in South Carolina impact a five-county region in both South Carolina and Georgia. The Savannah River Regional Diversification Initiative (SRRDI) is the CRO for the communities impacted by SRS. The SRRDI has a 22-member board of directors, appointed by the local governments in the five counties, the chambers of commerce, and the South Carolina and Georgia congressional delegations. SRRDI members are drawn largely from the economic development and education communities.

Since 1992, the Savannah River Site has lost at least 8,000 employees. While the SRS is not available for reuse, the SRRDI has focused on helping new technology start-up companies, attracting new national businesses to the region, and expanding local firms. A Manufacturing Technology Centers program, established by the SRRDI in cooperation with Georgia Tech University and the University of Georgia, provides technical and management assistance to expanding manufacturing firms in the five-county region.

1.3.1.3 Improving Infrastructure: Augusta, Georgia

The city of Augusta, Georgia, is using excess equipment from SRS under an economic development contract with DOE. The first piece was an 800-kilowatt diesel generator from SRS's K area. The generator will serve as a backup to power the city's primary water pumping station. The city has also used three welders; a well system; a large motor with associated controls; and support equipment, including two 5,000-gallon fuel tanks.

The cost savings for the city are substantial. The original price of the equipment totaled \$687,000, and DOE determined the fair market value to be \$263,000. However, based on the reuse laws, the city contracted to buy the equipment for \$55,000 and spent about \$64,000 to have it removed from SRS.

1.3.1.4 Mainstream Multi-Jurisdictional Economic Development: Portsmouth and Idaho

Portsmouth Gaseous Diffusion Plant

In 1995, the four counties affected by cutbacks at the Portsmouth Gaseous Diffusion Plant formed the Southern Ohio Diversification Initiative (SODI). The Portsmouth Plant and the Paducah Gaseous Diffusion Plant were sold to the congressionally chartered U.S. Enrichment Corporation (USEC) in 1998. The Portsmouth Plant employment has since decreased through attrition by 35 percent, and a formal reduction-in-force occurred in 2000.

SODI was formally incorporated under the Ohio Community Improvement Corporation Statute in 1997, with a 15-member board of directors. The members are appointed by the counties, two directly affected townships, USEC, a labor-management council, and the presidents of the two principal labor unions at the plant.

The initial \$7-million SODI Transition Plan was approved by DOE in March of 1998, and a follow-on DOE grant of \$5.9 million was awarded in 1999. The key components of the SODI transition program are summarized as follows:

- *Overcoming Limited Regional Industrial Park Capacity.* SODI's major achievement has been in overcoming the previous lack of suitable industrial parks in the four-county Southern Ohio region.
- *Access to Southern Ohio.* The region has faced difficult obstacles in securing transportation access to the rugged Southern Ohio terrain. To open the area, SODI has funded a new fuel facility and navigation aids at the Pike County airport, which now permits corporate aircraft landings. SODI and the four counties financed a \$4-million regional geographic information system (GIS) to clearly identify the available industrial and commercial sites in the region. The Brown Corporation opened a new modular home manufacturing facility, providing 60 jobs as a direct result of the GIS information being available. The state of Ohio and SODI are now aggressively marketing the underutilized industrial properties in the region.
- *Enterprise Training and Development Program.* The four-county area has long lacked access for new business startup capital. As a result, the Pike County Community Action Agency, in cooperation with the three surrounding counties, organized a new business enterprise-training program. A new supplemental business loan program

was established in cooperation with area banks, and by 2000 four business loans of \$75,000 to \$800,000 were approved for former DOE plant workers.

Idaho National Engineering and Environmental Laboratory

The Idaho National Engineering and Environmental Laboratory (INEEL) has dominated the economy of a seven-county area since 1949. The economy is otherwise dependent upon irrigated agriculture and draws its water from the Snake River.

Idaho Falls, Idaho, located approximately 50 miles away, is the nearest city to INEEL. By 1992, the city of Idaho Falls and the surrounding region realized that the area needed to diversify its economy. A locally funded economic development organization, the Eastern Idaho Economic Development Council (EIEDC), was created with a broad 31-member board. The EIEDC is comprised of business members from each of the seven Idaho counties affected by INEEL. A \$5-million DOE grant in 1994 provided the EIEDC with initial marketing and operating resources.

Because the community does not have the benefit of available DOE facilities or equipment, the EIEDC was forced to design a broad regional economic development program based on the skills and potential of the people in the region. By 2000 the EIEDC had created or attracted over 2,200 jobs, which offset the decline in INEEL employment from 7,500 in 1994 to about 6,000 jobs in 1999.

One success of the EIEDC is the creation of a revolving loan fund, entitled the Enterprise Fund. The Enterprise Fund's operating philosophy is "Do What it Takes." The fund's creativity can be seen in some of its recent debt and equity offerings:

- A "zero" interest loan to a fishing equipment manufacturer for \$200,000 over three years, supported by a bank letter of credit. The participating bank will then take a longer-term loan position beyond the third year.
- A \$250,000 loan to a computer design firm, supporting a \$500,000 investment by other private and non-private equity sources arranged by EIEDC.
- A two-year "zero" interest loan to a private developer for a building needed to support the Council's job creation efforts. The building was completed in 180 days and fully leased within 90 days thereafter.

1.3.1.5 Enhancement of Labor Force Opportunities: Fernald Plant

The Fernald Plant, a former uranium processing facility, is a small DOE site (1,100 acres) located in a semirural portion of the Cincinnati metropolitan area, about 10 miles southwest of the city of Hamilton. The employment impact area for the 1,900 workers at the plant is spread over eight counties.

A nonprofit Section 501(c)(3) local economic development corporation was formed with a 15-member board in late 1997 to serve as the Fernald CRO. The broad-based board includes township officials, business members, plant worker representatives, and concerned local citizens.

The Fernald Plant has been designated as a Superfund site, and agreement has been reached with the state of Ohio for environmental restoration of approximately 820 acres at the site. A low-level waste materials storage cell will be located on another 120 acres. Only about 23 acres remain available for public reuse.

The community transition plan, approved in October 1999, focuses on job creation actions that will be taken largely off site. By 2000, DOE had financed only \$325,000 of the Fernald CRO's initial \$12 million transition program to date, which has five major objectives:

- *Industrial Marketing.* In cooperation with the area chambers of commerce, the CRO has purchased a membership in the Partnership for Greater Cincinnati's \$800,000 industrial marketing program.
- *Revolving Loan Program.* A revolving loan fund is being established to assist former Fernald plant employees and community residents with gap financing for start-up or expanded businesses.
- *Incubator Feasibility Study.* Existing regional business incubators are near full occupancy, and a new facility may be needed to meet regional needs.
- *Local Development Corporation.* The area's smaller communities will receive assistance to upgrade their "main street" business environments.
- *Entrepreneurial Assistance.* Through "Project ADEPT," small business development centers at area colleges will provide specialized assistance through private sector consultants under contract to new start-up businesses initiated by Fernald employees or community residents.

The Fernald CRO has made a conscious effort to ensure close cooperation and involvement with its affected work force. The effective initial transition efforts by the Fernald CRO should also permit this semirural area to recover effectively by focusing on off-site job creation within the overall Cincinnati region's strong economy.

1.3.1.6 New Technology Assistance: Pacific Northwest National Laboratory and the Tri-City Industrial Development Council

Battelle Pacific Northwest National Laboratory

The Battelle Pacific Northwest National Laboratory (PNNL) offers a technical assistance program that has assisted over 200 area local firms in enhancing their product manufacturing and development capabilities. The program has created more than 50 jobs in the community.

The Laboratory also offers an attractive new business entrepreneurial leave absence program for its employees as a means of encouraging them to think as entrepreneurs. The Applied Process Engineering Laboratory (APEL) offers a unique and successful example of a major implementation of that program.

Tri-City Industrial Development Council

The Tri-City Industrial Development Council (TRIDEC) serves the economic development needs of Benton and Franklin Counties in Southeastern Washington. TRIDEC's mission is to

create and retain family-wage jobs in Benton and Franklin counties through business recruitment, expansion of existing businesses, and support of federal funding for the DOE Hanford Site.

Agribusiness Development. TRIDEC works with the Prosser Economic Development Association with its specialty foods marketing initiative to assist new food producers with their marketing and start-up technical programs. TRIDEC also worked with the Port of Pasco and city in the development of its wastewater treatment facility at the Pasco Processing Center. It has now permitted four new food processing and distribution plants to locate at the Center.

Business-to-Business Commercialization and Development Center . The Agribusiness Commercialization and Development (ABCD) Center “seeds” new local and regional businesses in the agricultural sector. The ABCD Center helps companies resolve major challenges to commercializing agribusiness-related technologies. These services also strengthen the region’s agricultural economy by recruiting new agribusiness firms. The ongoing success of the ABCD Center was based on early investment through a DOE Section 3161 grant to TRIDEC, in addition to other support from the founding partners.

Equipment-Facility Reinvestment. As a way of characterizing and cleaning up surplus but valuable equipment at the Hanford site, TRIDEC has established the Tri-Cities Asset Reinvestment Company (TARC) as a legally separate Limited Liability Corporation. Working as a joint venture partner with a firm licensed by the U.S. Nuclear Regulatory Commission, TARC was able generate nearly \$30,000 in its first three months of operations from the public sale of reconditioned machine tools and heavy equipment. Flour Hanford, as the site contractor, has taken an active role as an economic development ally in assessing and marketing the available DOE facilities. In addition, Flour Hanford is also constructing a new 100,000 square foot shell building at the Pasco Processing Center.

Using Community Resources Effectively

Adding value to individual resources is important, but for effective and sustainable development to occur it is necessary to look at a community in its entirety. By doing this, citizens, government institutions, and private firms all work toward the same goal—improved quality of life.

The two cases below outline the actions that communities can take to build a comprehensive community economic development plan. The first case illustrates the steps taken in Russia by the city of Kirzhach. With a population of 36,600, Kirzhach is a city of regional significance in Russia’s Vladimir Oblast. The city’s industrial history started with silk processing. In 1913, twenty percent of the silk textiles in Russia were processed in Kirzhach. A place with traditionally highly educated labor force, the city added to its industrial base an iron processing and hardware building plant, which in 1931 became a national champion. In addition to a metal processing factory, other major industrial assets are a furniture factory, textile and garment factories, a dairy plant, and a factory for fire department equipment. While the city has a well-developed roads system, the communications infrastructure is yet to be improved. People’s homes are not yet fully

wired for telephone services, however, the trade and services sector is developing at a fast pace. In the Kirzhach region there are 19 schools, 26 pre-school institutions, and three technical colleges, one of which exclusively specialized in machine building.

The second case illustrates how a closed city in the United States (Oakridge, Tennessee) put the community's resources, national legislation, and the community's history together to create a real place for people to live, recreate, and work.

Kirzhach City Development Strategy

Concept Development Requirements

Currently, Russia lacks a federal strategy for the development of small cities and complex municipal entities, upon whose basis they will function. Small cities in Russia are significant and necessary for society. Their functions are broader than just producing economic results, but some of those functions cannot be measured.

Programs for the coordinated renewal, stabilization, and development of regional and interregional entities and municipalities have not been fully developed. Under these conditions, it is extremely important to formulate a development concept and strategic plan for the city of Kirzhach.

The development of the city of Kirzhach and its surrounding region, which function as a complex municipal entity, encountered a number of acute problems, including:

- Subsidies
- Staffing shortage
- Slow flow of investment, particularly of foreign investment
- Underdeveloped housing sector, lack of available housing, and significant percentage of substandard housing
- Underdeveloped social infrastructure (education, healthcare, recreation, service sector)
- Inefficient use of local resources
- Municipal education authorities who lack a thorough investment policy
- Bureaucratization of some government procedures (e.g., documentation of land status, registration of real estate rights, excessive licensing of various types of activities).

The economic potential of Kirzhach and the entire Vladimir Oblast allows for the definite, well-founded planning of accelerated development for the given municipal entity in the short and long term. Worldwide and domestic experience testifies to the fact that strategic planning is an effective and powerful instrument in managing a city's development. A strategic plan works toward the establishment of new economic opportunities, while taking into account the needs of the people and society. The need for a strategic plan is also based on the acute difficulties faced by the city's population (according to sociological studies), which are tied to a lack of transparency in the activities of the local authorities.

The development of a strategic plan allows local authorities to mobilize all readily available resources to adapt to changing conditions, achieve expected goals, and help improve the local administration's reputation with its citizens. The group that developed the given concept proposes the strategic plan. The plan requires further explanation and realization through concrete actions by the city and regional administration, and all participants involved in the city development process.

Goals and Tasks for the Development of Kirzhach

The main goals of the accelerated development of Kirzhach are to provide a higher standard of living for the citizens, develop attractive living conditions for current and future city residents, and establish innovative businesses that in the near future will be significant factors for development.

The general task of the city development program involves establishing conditions for the growth in prosperity, raising the living standard for city residents, turning the city into an attractive destination for well-qualified workers, and promoting permanent and long-term residence in the city.

The city's development achievements will be characterized by the following indicators:

- The health of the population (longevity, level of health and ability to work, access to high-quality health services)
- Public safety (level of serious crimes, property crimes, perceptions of personal safety by citizens)
- Education (education levels of the population, access to and quality of education, aspiration of the public to attain higher education)
- Income (income levels of the population, income disparities, direct support for unprotected sectors of the population)
- Employment (unemployment, including unreported unemployment, quality of work, labor conditions)
- Housing conditions (characterized by comfort and safety, including actual living space and housing environment)
- Recreation and relaxation (diversity of activities, including health-oriented activities, family relaxation during non-vacation periods, opportunities to participate in recreational sports, organized performances, and development of individual hobbies)
- Environment (land use, water and food quality, environmental safety, environmental sustainability).

For fundamental improvements to the standard of living in Kirzhach, the following are necessary:

- Increasing citizens' real income
- Improving city infrastructure
- Resolving housing problems

- Providing the city with a high quality of life, according to current environmental demands
- Attaining satisfactory levels of education, healthcare, social programs, culture, sports, trade and day-to-day service for the city residents
- Providing necessary levels of employment, constant increases in job creation, and demand for high-paying jobs.

An economic precondition for radical increases in Kirzhach's standard of living is growth in the annual Gross Regional Product (GRP). For this growth, it is necessary to do the following:

- Provide incentives to attract investment in the city, including foreign investment, through material and legislative means
- Establish new companies, thereby increasing the tax revenue base and the number of highly skilled jobs
- Convert the main economic potential of the city (highly qualified labor and management, education, city infrastructure, transportation, and communication) into a realistic factor for the growth in the region's GRP
- Accomplish maintenance and new construction of water supply and sewer systems, uninterrupted natural gas systems, and the electric supply network so that all will function reliably
- Reorganize the city infrastructure, expand infrastructure for housing development, set goals to liquidate dilapidated housing, and construct modern and comfortable housing
- Expand and develop new production associated with housing and road construction, offices, government, recreation, medical services, and communication
- Provide support for services associated with the Internet and World Wide Web.

To accomplish the above, it is necessary to establish a business center, a network of hotels, medical and recreational centers, sites for providing social services to the citizens, offices for new businesses, financial institutions, information services, and communication networks.

To achieve high levels of growth in the GRP, municipal entities will require corresponding growth in key economic parameters from 2001 to 2021. The most important of these parameters are the following:

- Renovation of social infrastructure by 80 percent
- Growth in housing construction to increase livable space by 200–300 percent
- Increase in the supply of consumer items by 100 percent
- Expansion in the provision of services by 200 percent
- Increase in revenue to the government budget by 100 percent
- Renewal and rotation of management personnel by 50 percent.

Principles of Accelerated Development for Kirzhach

Relying on local capabilities. In the short term, it will be difficult to rely on changes in federal policy regarding small cities in Russia. Therefore, in determining the potential for the city of Kirzhach it is necessary to rely on local resources for the development of the city and region.

Taking stock of development trends. Basic socioeconomic development trends in the 21st century assume a shift toward an information type of development and fundamental movement toward advantageous, non-material production based upon information exchange. Under these conditions the main asset is the knowledge and creative capabilities of the region's citizens.

Utilizing traditional and newly established advantages. World experience in urban development shows that within the framework of strategic planning, it is necessary to quickly determine the Kirzhach region's advantages and disadvantages; advantages that have traditionally distinguished the city of Kirzhach from others; and also new advantages that the city can harness to encourage development. Among the Kirzhach region's competitive advantages are its:

- Advantageous geographic location (short distance to Moscow, located at the crossroads of the Golden Ring road)
- Historic, cultural, and architectural monuments
- Natural resources
- Favorable environmental conditions.

Overcoming disadvantages. Among the region's disadvantages are the following:

- Indicators showing a diminished ability to attract investment
- Lack of qualified specialists in the most diverse fields of employment, lack of ability to train and provide professional development training for personnel, and migration of the highly trained specialists to the capital region
- Low-quality housing and lack of housing infrastructure
- Lack of telecommunication capacity for the development of Internet-based services.

Kirzhach's strategic plan is directed toward the increased use of existing property and establishment of new competitive advantages for municipal entities, but also toward isolating disadvantages or converting them into advantages. In managing the development of municipal entities, the city will support activities that establish new local advantages, according to the following priorities: a well-established market infrastructure; the presence of communication lines; safety (personal and business); a complex of institutions to support business; a corps of qualified workers; and favorable conditions for investment.

Without exception, a significant factor in the development of municipal entities is the establishment and support of a cadre of highly qualified municipal personnel. Qualified personnel are essential because the development of the city, to a significant extent, depends upon the level of qualifications of its citizens, which is largely determined by political policy and quality of life.

A current and even more important factor in the development of the Kirzhach region is the presence of high-quality communications infrastructure. Communication lines, computer networks, and free access to the Internet are all necessary factors for economic development.

An essential advantage of the city of Kirzhach may become the high level of safety it provides (both personal and business). One cannot hope to attract investment in a city with a high crime rate.

A highly competitive trait may become the high-quality services provided to the citizens (first, medical and education services; then business, information, financial, and recreational services).

Fundamental Direction of the Development of Kirzhach

Material production in the city of Kirzhach should be oriented not only for the use of city residents, but also partly for use in the capital region. Consumers of modern services provided by city entities are comprised of not only Kirzhach residents, but also residents of the Moscow region. The basic direction of economic development is to:

- Further develop the city's essential companies
- Attract new businesses to the city
- Support and develop small and medium-sized enterprises
- Create new high-paying jobs
- Develop investment and international business practices
- Expand tourist, hotel, and financial services
- Develop city infrastructure
- Accelerate the development of communications, telecommunication, and transportation.

The Kirzhach development model assumes the development of internal city functions. Basic internal functions consist of using existing conditions and the creation of fundamental conditions that will guarantee the safe functioning of essential services and self-reliance of public education.

Population Forecast

To establish the basic direction of Kirzhach's development, it is necessary to forecast the population increase in the city and develop means to regulate the migration of the population. The population forecast until 2010 uses data on demographic trends compiled in Kirzhach over recent years. Migration is an insignificant factor in the region's overall population growth; therefore, long-term forecasting should be based on trends from the past few years.

In the future, it is expected that the population will stabilize at 47,000. This type of stabilization accounts for the flow of immigrants to the region.

Investment Policy

The slow flow of investments, especially foreign investment, results in subsidies from the municipal budget; lack of funds; and slow development of new and existing companies, city infrastructure, and small business. The government's lack of a clear investment policy aggravates the situation.

The city should do the following to attract investment:

- Conduct a marketing study to determine the most cost-effective development areas
- Zone the land and develop an investment projects portfolio based upon the zoning
- Encourage investments in the most important projects for public education and prospective development:
 - City and regional infrastructure (gas, heating, and water supply)
 - Education and Internet development
 - Service sector, communications, and telecommunications
- Create conditions to attract businesses from the capital to the region
- Prioritize establishment of new companies and development of existing companies working in tourism, day-to-day services, and guest services
- Revitalize and develop traditional crafts.

Reconstruction of the City Infrastructure

One of the city's primary infrastructure issues is to develop engineering infrastructure (for gas, heating, electricity, and water), as it is currently unsatisfactory. Resolving this issue demands reasonable centralization and strict discipline in managing the infrastructure.

The basic goal of developing the gas supply system is to increase the use of natural gas by up to 90 percent. This will allow for lower costs in heating households and social service facilities, which as a result will lower city expenditures and will improve the environmental state of the region. In 1995 the Kirzhach region began implementing its plan to build a gas supply network. Since 1996, more than 60 kilometers of gas mains have been laid. Taking into account the speed of the work and the amount of work already completed, it is projected that Kirzhach will be completely supplied with gas in the next one or two years. This factor alone distinguishes Kirzhach from other municipalities in Russia.

The main goal of heating systems development is to increase heating efficiency due to increased insulation of renovated buildings and heat pipelines, increases in reliability and heating supply, and the use of energy-saving technologies.

The main goal of developing the electric supply systems is to provide for increased electric load.

The main goal of developing the water supply systems is to decrease the volume of drinking water consumption, due to water conservation efforts; increase the reliability of the water supply systems; and provide various means to meet international drinking water standards.

The basic goal of sewer systems development is to provide for increased capacity and increased reliability, through reconstruction of existing and construction of new sewer systems and treatment facilities.

Housing Construction

The amount and quality of housing in the Kirzhach region has been increasing. The percentage of dilapidated and obsolete housing has decreased to 30 percent of the overall housing available to the city, due to the demolition of old housing and increased annual rates of new construction. Despite the positive dynamics in housing, the issue of access to housing in the Kirzhach region remains an acute problem. Much of the housing stock is still dilapidated and unsuitable for habitation.

The average living space provided to each resident by the year 2010 should be 30 square meters per person. This goal requires accompanying increases in housing construction: annually, the region's available housing must increase by three to four times the current level, from all financing sources. With this goal in mind, the following is proposed:

- Encourage individual housing construction, by offering development of desired parcels of land and local construction materials (forests) and administrative support for labor and registration of property
- Achieve, through the capabilities of the construction firms, housing construction for the northern territories resettlement program by conveying a share of built housing to the municipal housing stock
- Achieve share-based initial housing construction.

Support for City Businesses

A special characteristic of small cities, as well as large, complex municipalities, is the presence of two or three businesses essential to the region. For that reason, a fundamental focus of the regional administration is a balanced policy of support for these essential businesses.

Similarly, it is necessary to support existing and newly established small and medium-sized businesses. The regional administration should give primary attention to developing cooperative mechanisms between the administration and regional businesses. To create such mechanisms, the administration should:

- Conduct an inventory of all regional businesses and lands (especially rivers along flood plains and forests)
- Determine priorities for supporting regional businesses
- Simplify registration of small private and municipal companies
- Stimulate establishment of small and medium-sized businesses in agricultural food processing
- Provide services by adopting progressive and reasonable taxes
- Allocate lands for companies that relocate from the capital to the region and use the services of local construction organizations.

Redevelopment of the City Center

Reconstruction of the city center can attract new companies and change its image. To broaden business activities in the city, it is necessary to make the center more attractive. The attractiveness of the city for business, as well as for employees, is in part determined by the image of the city center. The attractiveness of the city center testifies to the healthy services that support business activities and entrepreneurship.

Establishment of a Municipal Development Agency

The relative independence of the Kirzhach region's development is based upon the establishment of a municipal development agency, whose main function will be the support of newly established businesses. This will allow investors and leaders of new businesses to resolve any questions about starting up their businesses or attracting investment at one location. In addition, the municipal development agency can do the following:

- Answer any questions concerning the strategic development of the Kirzhach region
- Establish a consulting center for the economic development of the region
- Provide firms with needed office space, with the possibility of expansion
- Provide firms with assistance in leasing and banking questions
- Develop Internet and small printing services.

Provision of Healthcare

It is expedient to encourage the development of healthcare services, oriented toward achieving the maximum levels of health possible for Kirzhach's citizens. With this goal in mind, it is necessary to:

- Increase the number of healthcare facilities for the region's citizens, increase the service quality at existing healthcare facilities, and organize a system of incentives that would lead to the construction of a birthing facility in the region
- Design and implement a program of environmental health and management in the region
- Complete the construction of the recycling test site, which will not only improve the environment, but will also allow the region to attract investment, since demand for many recyclables (paper, glass, plastic) is increasing.

Development Mechanisms

Accelerating development in Kirzhach requires both financial and organizational mechanisms.

Financial mechanisms. The following are necessary to provide the financial means for accelerated development:

- Accumulating financial resources
- Giving an initial push for the development of the city
- Overcoming the practice of providing subsidies from the city budget
- Respecting the rights of other parts of the municipal entity

- Stimulating the attraction of new taxpayers to the city, who will certainly have a positive influence on the development of the city and oblast in general.

Organizational mechanisms. It is necessary to not only create a municipal development agency, but to also carry forth the concept into a plan for concrete action. Individual sections of this plan could generally consist of the following:

- Management of municipal properties, in particular natural resources and land. This section of the plan proposes steps for zoning, geographic information systems, energy-saving technologies, and property rights. The administration plans to begin by undertaking comprehensive and focused zoning work.
- Finding additional resources for financing the city's development. This section includes increased cost-effectiveness of the budget and "external budgets," increased efficiency in all areas of the administration's work, management of the municipal cash flow, development of project financing, attraction of international financing sources, and development of the tax base.
- Steps for supporting small and medium-sized enterprises. This section must, first and foremost, include project financing based on competition and priority, establishment of a guaranteed fund and an incubator for innovative businesses, development of the city's market infrastructure, information support for small businesses, and the formation of a development agency.
- Mechanisms to achieve reforms in the housing maintenance departments, decrease the level of monopolies, develop competition in government services, and develop energy-saving technologies.
- Marketing and promotion of the city. This section includes the following areas of focus:
 - Marketing the advancement of the region
 - Clarification of procedures associated with opening a new business in the city
 - Providing information on the open ways by which all interested parties can receive strategic information on the city
 - Use of the mass media to formulate a clear idea of the city's future development and its advantages.

The plan for competitive measures must include dates for completing the activities, responsible officials, anticipated results, and the amount and sources of financing. The city of Kirzhach expects to develop such a plan in the near future.

Resources for Development

The main resources for the development of Kirzhach are the following:

- Material resources and available capacity
- Financial resources
- Staffing resources.

Material Resources and Available Capacity. The city of Kirzhach and the Kirzhach region possess significant industrial potential. Out of 26 municipal entities in the Vladimir Oblast, Kirzhach is ranked fifth in terms of gross regional product (GRP) per capita.

The main industrial capacity is in automobile production (public stock company “Avtozvet” and public stock company “Kirzhach Industrial Factory”) and in light industry (public stock company “Detskaya Odezhda,” closed stock company “Slavianskiy Dom,” and others).

The natural environment of the Kirzhach region as a whole is conducive to economic development. The Kirzhach region’s climate (temperature, precipitation) contributes to the development of agriculture and recreation and poses no limits for any type of construction.

Of the mineral reserves in the region, it is worth noting significant reserves of construction-grade sand and large areas (30,000 cubic meters) of high-quality clay for bricks.

More than half (58 percent) of the region’s territory is forested (66,300 hectares). Annually, over 10,000 cubic meters of all types of lumber are used.

The city of Kirzhach and the Kirzhach region have significant recreational resources. They are made up of wooded environments, a variety of open bodies of water, and fauna for hunting and fishing. The shores of the Kirzhach, Sherna, and Sheredar Rivers are viewed as potential sites for organized recreation for the region’s residents, as well as residents of Moscow and the Moscow Oblast.

It is notable that in the Kirzhach region there are already more than 100 garden societies established by the residents of Moscow and Podmoscovie. During the dacha season, the population of the region increases threefold and reaches 150,000–200,000 people.

Financial Resources. The budget of the city of Kirzhach and the Kirzhach region is mostly composed of its own revenue, but nevertheless remains subsidized. The municipal administration provides basic federal services with the subsidies. All other expenses are covered by local revenue. The economic dynamics of the region allow for the conclusion that beginning in 2002, the Kirzhach region will become self-sufficient. The regional administration will be able to provide assistance to companies, with foreign investment, by providing corresponding favorable terms from the local budget. This is in accordance with the passage (in 1999) of the Vladimir Oblast law “On additional benefits to organizations that have achieved investment projects with foreign investors in high-priority areas of domestic production.”

Staffing Resources. The staffing resource situation in Kirzhach is not, in principle, different from the overall situation in the Russian Federation. A majority of the managers and specialists in the local administration are products of the pre-Perestroika period and are slow to adapt to the new work procedures. This situation prevents the efficient management of the municipal entities as complex, organic socioeconomic systems. Within the management structures of the city and the region, there is a tendency toward bureaucratization. To improve efficiency, it is necessary to do the following:

- Substantively change staff's potential, complete their training, increase the qualifications of personnel, and increase their adaptation to new conditions and demands.
- Confer authority on teams of individuals, increase team-member competency, establish conditions for the acceptance of unusual ideas, attain transparency in the legislative process, and change attitudes toward social problems.

Among all the factors to consider when attracting firms to a given area, the quality of the labor force is particularly significant. Personnel who are professional, knowledgeable, and skilled are a unique resource for development. Employment of unprofessional personnel acts like a brake on a city's development.

It is impossible to resolve the personnel issue once and for all; efforts to develop the labor force must be ongoing. Every new level of development demands more effort, initial training, and additional professional training for staff. Both international and domestic practice lacks of ready-made recipes to resolve all the problems of strategic city and regional management. Therefore, administration staff must be ready to accept innovative approaches and technology.

In developing the staff of the city of Kirzhach, it is necessary to achieve the following:

- Rational replacement of officials and the effective use of experts according to the city's new strategy. The percentage of legal, sociological, and economic experts must increase; at the same time, the relative weight of experts with a technical education must decrease by almost half.
- Proactive training of experts in specific areas of work that in three to five years will be crucial in fulfilling the city's strategy for its municipal, governmental, and market structures.
- Establishment of a professional administrative corps, for which it is necessary to complete special training and professional development of the personnel.

The development of the city of Kirzhach will occur only if there is continual innovation in administrative, financial, and social technology. For this end, it is necessary to conduct a proactive diagnosis of the city's use of technology, and also to investigate development trends in small Russian cities.

The following steps are advisable so that the goal of managing and developing the city will be accompanied by scientific innovation:

- Establish a scientific complex in Kirzhach
- Increase the scientific potential of the city and use it effectively
- Develop scientific contacts with research and education centers in the country and continue the creative contact with the TYCOM Holding Company.

An important question concerning educational development is the possibility for the city to master modern information technology and work procedures. The "Internetization" of

education is a noteworthy priority for personnel training programs. Free access to the Internet is necessary to promote the use of modern information technology.

The concept and main direction for the city's development are embodied in the strategic development plan, and they also have an influence on the financial and budget plans. The city's strategic planning efforts will be effectively embodied in real life, under the condition that its residents agree to actively participate in formulating and implementing the city's strategy.

Oak Ridge, Tennessee: Comprehensive Reindustrialization Plan

In 1998 the city of Oak Ridge, Tennessee, had a total industrial employment base of 16,780, of which 14,081 remained employed by the federal government and only 2,699 worked in private firms. The city decided to take advantage of DOE initiatives, specifically the DOE Workforce Transition Program and DOE Reindustrialization Program.

The reindustrialization development approach that the Community Reuse Organization of East Tennessee (CROET) is following focuses on assisting the private sector in creating quality jobs in the region by using the underutilized land, facilities, equipment, personnel, and technologies available at the Oak Ridge Reservation. The other CROET strategies include dual benefit work force development, regional research and development initiatives, community transition, and economic diversification. CROET represents the region surrounding the Oak Ridge Reservation, with a 41-member board of directors.

The reindustrialization program is a central responsibility at the Oak Ridge site and is integrated into the Bechtel-Jacobs management and operating contract responsibilities for the site. CROET's development strategy is to lease fully equipped plant facilities, as needed by its industrial clients, at the East Tennessee Technology Park's Heritage Center (formerly known as the K-25 plant). By 2000, CROET had leased about 700,000 square feet of industrial and support facilities at the Heritage Center complex to 20 companies, bringing 310 new jobs on-site.

CROET and the city of Oak Ridge, along with six other public and private partners, signed a memorandum of understanding in June 1999. The parties have undertaken an initiative known as *Partners for Progress* to extend municipal infrastructure to five major industrial sites in the west end of Oak Ridge, including the Horizon and Heritage Centers. In January 2000, the Oak Ridge City Council unanimously adopted a financial strategy for the project and pledged to provide one-third of the total estimated cost of \$15.2 million. To support implementation of Phase 1 of the initiative (which will extend wastewater service to and within the Horizon Center), the city of Oak

HIGHLIGHT: The Horizon Center

CROET initiated development of the Horizon Center, a 1,000-acre business park, on a long-term leasehold from DOE. The project will promote economic diversification and create jobs to offset losses throughout the Oak Ridge Reservation.

Theragenics, the first high-tech tenant of the Horizon Center, opened a facility at the new business park. Theragenics manufactures an irradiated seed used as a highly successful cancer therapy.

The city of Oak Ridge and Theragenics have reached agreement on a formula for payment in lieu of taxes and are working together to structure the necessary financing to extend sewer services and other infrastructure to the Horizon Center.

Ridge and CROET are working together to secure state and federal grants (including one from the Appalachian Regional Commission). By leveraging their collective assets, the partners will be able to offer sites that meet the needs of a range of industrial and commercial clients.

Conclusion

Each of the communities utilized the assets available in the community from the federal activity for its job creation activities. The leveraging of the federal assets can be a key to ensuring that your community utilizes its human capital and unique infrastructure in today's economy to succeed.

3 Tools For Change: Community Based Economic Development

3.1 Introduction to Community Based Economic Development

Economic development is at the intersection of many sectors - housing, education and labor force development, infrastructure, finance, law (legal authorities), health, civil society, and private sector development. *Community based* economic development (CBED) considers the complexities of this intersection from the perspective of democracy and governance. From the public sector's perspective, there are important social reasons to do so: it is democratic, egalitarian, and inclusive. For the private sector, the value of a community-based approach to economic development is that it results in an efficient use of resources—a basic economic principle.

Each of the U.S. cities that have undertaken economic development have ensured 1) that the political support for their activities at the national and local level exists and 2) that they used economic planning that focused on the local government as the facilitator of new business creation. Over the years one of the keys to success and action has been the use of community based economic development. This chapter will assist leaders in energy communities to develop the tools and become familiar with:

- The basic principles of demand driven economic development
- Methods of mobilizing the community and its resources to achieve economic growth;
- Strategies for defining and achieving the community's vision; and
- Practical programs and methods of allocating resources that enhance opportunities for economic investment.

Once a community has completed the Community Based Economic Development process they will have engaged all sectors – small and large business concerns, NGO's, educators, government, individual citizens, and community leaders—in the planning and implementation of the activities that will lead to sustainable growth and an improved quality of life.

In the end the community will have:

- *Defined a plan for use in developing business incentive programs that correspond to and build upon the basic economic resources of the community;*
- *Developed a strategy that will promote efficient use of resources; and*

- *Increased involvement, understanding and support of the greater citizenry, ultimately building cooperation between the citizens, business, and government.*

3.2 What is Local Economic Development?

“Local economic development refers to the actions taken by a community to stimulate business activity and / or employment.”⁶

This quote provides a very concise definition of local economic development, but there is a complex mix of roles and responsibilities of institutions within a community that must be energized if the words are to translate into action. As leaders in a community, municipal governments play a unique role in the strength of the local economy. That role, however, is not one of being the primary investor. According to Michael Porter, author of *The Competitive Advantage of Nations*, the role of government is to enhance what exists, not create something that does not exist.

Government at all levels play a critical role in creating an investment-friendly environment, one in which private investors can expect a reasonable return on their investment and citizens can garner a better quality of life through improved employment opportunities. Locally, officials focus on improving the competitiveness of the region. To create this environment, local government officials focus on physical resources, labor, and financial resources. The goal is to improve the productive use of space, the productivity of labor, and effective use of financial resources—ultimately creating a more inviting investment climate. Local economic development is a hybrid field that relies on the principles of economics, finance, planning, public administration, city management, and spatial geography to achieve the ultimate goal of increased wealth for the community. It is to build market-driven, public-private partnerships that will create long-term jobs, income, and wealth. In the end, the cities must restructure themselves. Economic restructuring is successful only if it is a long-term process with commitment, driven by an innate understanding of local comparative advantages, and continually adapted and adjusted as needs and opportunities change.

There are five principles that inform the work of the community as it relates to economic development policy, strategies and actions

1. Firms, not local or national governments, create wealth.
2. Local economic development programs should be executed in partnership with national and regional policies and programs.
3. Efficient and effective public institutions reduce the cost of production for the private sector.
4. The physical environment (infrastructure) contributes to a community’s competitive advantage.

⁶ Blakely, Edward J. (1989) “Planning Local Economic Development: Theory and Practice”, Newbury Park : Sage Library of Social Research.

5. Access to employment opportunities improves the overall wealth of a community.

But how can this be accomplished? Here are some ways.

Focus on the economic base.

All firms in every community in every nation of the world are competing in today's increasingly integrated global marketplace. Only those firms that export goods and services from a local market to a regional, national, or international market are importing new wealth, new income, and new jobs to build the local economy. Economic base industries drive the economy; distributive industries—secondary and tertiary firms—re-circulate wealth that is already within the local economy. The first step in restructuring is to identify the economic base firms that drive the economy and to develop a strategy to expand and diversify that base.

Build on your comparative advantage.

The welfare of a region depends upon the development of industries that possess a comparative advantage in the external market, i.e. ability to compete and maximize profits. Trade is mutually profitable if every economy specializes in those products and services in which it is most efficient. Determining what the specializations of a community's economy are requires input from the businesses themselves. Further, it requires an understanding of the production process of these firms in order for a decisions to be made that add value to the communities resources—labor, land and/or capital—that ultimately improve firms competitive advantage.

Identify market barriers

Those problems that prevent a local economy from performing at its potential. Market barriers tend to fall into the following categories:

- ✓ High information or transaction costs
- ✓ Market prejudice
- ✓ Risk aversion
- ✓ Insufficient competition
- ✓ Government regulations and policies.

Correct the causes of market barriers.

Focus on causes, not symptoms. Approaches could include business foundation strategies or business recruitment strategies as well as a very detailed understanding of the resources the greater community has as they relate to the business strategies.

Keep your initiative focused.

Help leadership focus on building local comparative economic advantages and on removing market barriers. Take these steps:

- ✓ Develop your own economic restructuring strategy only after carefully evaluating local market opportunities and potential barriers to success.
- ✓ Continually revise the market evaluation.
- ✓ Define the economic area you intend to redevelop.
- ✓ Gather information from sources outside your region on your economy, industries, and public infrastructure to learn how your region is perceived by outsiders.

The most dynamic centers of economic development are in regions, where an active participation of the local authorities enhanced the formation of a versatile, purposeful and interconnected system of service and cooperation between firms.

3.3 What is Community Based Economic Development?

To optimize the results of a local economic development program and to ensure that a larger share of a community benefits from these results requires a new way of framing the local economic development strategy. Implementation of local economic development programs occurs in many ways, however, one that is gaining currency is a model that includes and relies heavily on the community. ***Community Based Economic Development*** is a name given to a democratic approach to economic development planning and implementation. It is a process that fosters an open, public – private cooperation which leads to the mobilization of all community resources for the purpose of economic growth and development.⁷ There are many normative reasons for this—it is democratic, egalitarian, inclusive—all important social principles. However, for the private sector the value of community based economic development is simple: ***it allows for the efficient use of resources—a basic economic principle—in a way that benefits the whole of the community--business and citizens alike.***

The definition of the community, as used in the context of Community Based Economic Development, is a group of people who live in an area with common economic interest. Geographically, communities maybe a city, or mixture of several cities and that share common economic interest. The community is self defined; it is not necessarily aligned with legal (administrative) boundaries set by the government.

The following four steps allow a community to make determinations that actualize the goals of Community Based Economic Development.

- Development of a Community Based Economic Development Strategy

⁷ Schumpter

- Analysis of The Community Resources
- Creation of Development Scenarios and an Action Plans
- Institutionalization and Implementation of the Actions

3.4 Community Based Economic Development and Democratic Governance

Markets operate most efficiently when barriers to trade are removed. One of the greatest barriers to trade is a prescriptive, closed economy; one which is formulated by government that lacks transparency. CBED opens up the governing process; it embraces the definition of democracy: “a system of government by the whole population. CBED relies on the involvement of a wide range of community interest groups that represent women, children, unemployed, students, large and small business enterprises, entrepreneurs and the elected and appointed division of local government.

Further, the process used for the creation of a CBED strategic plan allows for the systematic collection of useful information and decision making. Both the collection process and the decision making process incorporate a broad band of communication tools which facilitate public discourse.

Leadership is provided through the establishment of a CBED Coordinating Council. They test their decisions regarding vision: the image, economic competitiveness, strategic goals and objectives of a economic development plan by meeting with different groups of residents to determine if their vision corresponds with that of the population at large. Further, as strategies are developed by which to convert the visions into reality, the public is again able to comment on and offer suggestions for ways to meet the communities challenges.

In the end the results of Community Based Economic Development strategy and action plan are a reflection of the community as a whole. The decisions are recorded in a document that can be used by the administration as it makes difficult budgetary and organizational decisions. Most importantly, however, it is document that holds all community leaders, both the private and public sector, accountable for the actions they take. In short it is a contract, a covenant between a community and leaders, it is a definition of the authority they grant them.⁸

3.5 Effectively Involving Citizens

Citizen involvement in decision making - is a continuous process of interacting between the public and government bodies responsible for preparing, making, and implementing decisions. it includes:

- Measure for facilitating understanding;
- Informing citizens; and
- Receiving input on visions, images, strategic goals and objectives

⁸ John Locke – treatises on self government.

Regular positive aspects of public participation:

- Contributes to the revealing of problems, public needs and values (responsiveness to the opinions of different groups);
- Furthers new ideas, search for new problem solutions, and evaluating of alternatives (growth of social policy effectiveness)
- Promotes control over the authorities and contributes to the prevention of corruption.

Development of the direct and interactive communication of local government bodies with the local community may be done by developing official communication channels, initiated by local -government bodies (official publications, newsletters, leaders' speeches in mass media, etc.), and by developing public movements and organizations, which themselves are information channels to connect with certain population groups.

The Coordinating Council for Economic Development is a conduit by which communication with citizens is accomplished, itself a example of citizen participation practices. However, for the resources of the community to be effectively used for development, more than the establishment of the Council is required.

Citizens' involvement in the Community Based Economic Development process ensures that **all** the community resources will be effectively employed for the development of the community.

This requires the establishment of direct and feedback communication with the population of a municipality. Critics and opponents should be encouraged, to utilize the communication system as they have access to information outside which is accessible to the a municipal council. Critics and opponents, as well as those proponents of government, involvement in the overall CBED process legitimizes the decisions made.

Information objectives of public participation communication system

- revealing problems and public needs;
- revealing opportunities for alternative decisions;
- evaluating the consequences of different alternative decisions; and
- being able to provide systematic responses to citizen inquires.

Citizen Involvement and CBED

Even though citizen involvement can be difficult it is possible. Creation of a citizen involvement plan upfront will ease the frustration often associated with citizen involvement by public officials as well as leaders of industry. For instance, when the development plan of the community is being developed, the government authorities at the beginning stage might want to discuss it only with a limited group of experts before bringing it out to the public. However, at this stage they

might want to conduct surveys to study public opinion and include ideas generated by the public. Later, when the plan is more or less developed the government authorities can discuss it with the public through public hearings, open meetings, etc.

Community leaders and government authorities understand more and more that successful development and implementation of municipality development programs cannot be achieved without a reliable feedback with the local community and that they can only benefit from citizen participation in decision making process.

That is why, public organizations aim at informing citizens about the government activities and at involving them in the development, discussion and adoption of decisions, and in controlling the implementation of the measures taken.

3.2 Getting Started

Creating the Coordinating Council of Economic Development

The Coordinating Council of Economic Development (hereinafter, the Council) is the advisory body of the economic development system. It is formed in order to discuss and recommend to the local government all key decisions relating to the elaboration and implementation of the strategic plan. It is made up of elected representatives (leaders, as a rule), the members of the local administration, enterprises, NGOs and business people interested in developing and implementing the strategic plan. The Council members, by signing the strategic plan on behalf of their organizations, take up responsibilities of its implementation.

The Council members have the right to participate in all public discussions of the issues connected with developing and implementing the strategic plan. The Council membership is voluntary.

The Objectives of the Council

- political coordination and making key decisions relating to the development, approving and implementation of the strategic plan.

The Main Functions of the Council

- to define the vision and image of the community
- to approve the principal goals and main strategies of the plan;
- to develop an implementable action plan;
- to approve annual reports on the strategic plan implementation;
- to make decisions on the need to correct or develop a new strategic plan;
- to adopt or change the structure of the strategic planning bodies.

Step 1. Define Community and Community Representatives

Free market economies produce a very interesting phenomena: *large geographic areas that do not correspond with or to political and legal boundaries established by government.* In the last ten years Russia has seen the impact of goods, labor and capital that cross local, regional and national boundaries as business seek to be more competitive and people seek to gain employment. In the coming years this phenomena will only intensify, old definitions of community boundaries do not and will not apply.

The definition of the community is provided in Section1. Initially this definition may have the same boundaries as cities, and all of the resident institutions, economic sectors and citizens. Examples of the community institutions, economic sectors, and citizens include financial, local government, educators, large, medium and small industry, social services , labor / labor unions, and general community interest --- this group usually represented by someone who serves as a community watchdog.

□ TASK

For purpose of completing the CBED process in your community the definition of what it is and who is included should correspond with your respective conditions.

Make a list of all of the community groups that are important to the CBED process.

Review this list and determine what aspects of community reflect your community then determine people that could represent the community group selected.

Remember, the objective is to invite community representatives that will commit to working hard, can speak on behalf of their representative section of the community, and can help mobilize the community's resources for development.

Step 2. Convening the Coordinating Council

Economic Development Coordinating Councils are a new and undefined, concept of public participation and local self – government. The previous section provides assistance in identifying who should be represented, now the questions is how to establish the Coordinating Council .

An important things is working out Regulations of the Coordinating Council in order to clearly define the Council's objectives, rights, formation, and activities.

Elaboration of the Regulations, however, should be preceded by a number of informal meetings of the Council's initiative group - to determine the Council's goals and objectives, its role in addressing the issues regarding the community's social and economic development, etc. After the draft Regulations have been worked out, it has to be coordinated with all members of the Council.

Any number of methods for forming a Coordinating Council for Economic Development can be used. Examples include:

- The City may form a special expanded committee consisting of leaders from industries, small business, education, youth services, housing associations, trade associations, and other people willing to work for the community.
- The Council may be established on the basis of equal partnership between the executive and representative branches, involving leaders from industries, small business, education, youth services, housing associations, trade associations, and other people willing to work for the community. As a rule, leaders of the executive and representative bodies become co-chairpersons of the Council.
- A group of community leaders may make a decision to set up a non-government organization (NGO), which could be interested in implementing the process of uniting the people to develop the region.

Coordinating Council

As of today, three basic forms of managing the community's social and economic development seem reasonable:

Establishing the self-government body at the local representative body involving there socially and politically active citizens and different initiative groups.

A mixed form, when there is kind of dual power in managing the community development; this community is governed jointly by state bodies and self-government bodies.

Establishing non governmental bodies, i.e. providing the community citizens' right to independently solve problems within its competencies.

Thus, it is necessary to define the subject which must come up with the initiative of the community social and economic development. The principal thing is that in any ways given above, the opinion of the community residents should be considered first of all.

Each of the forms of managing the community-based economic development describes above, has a number of advantages and drawbacks. Here are just some of them:

No.	Form	Advantages	Disadvantages
1	Establishing an expanded commission	Closeness of deputies to the people	Deputies can not represent interests of all groups of the community. Hence, reliable communication channels with

			the local community should be established – not only through the deputies but also by other means. There is a real risk of not getting a real political support by the government which will lead to reduction of efficiency in solving issues related to the community development.
2	Coordinating Council	Comprehensive and regular political support. Efficiency in making optimal managerial decisions.	The problem of competencies increases between government bodies and local self-government bodies.
3	Non-Government Organizations	Representatives from different social groups and organizations have a versatile intellectual, staff, organizational, material, and financial potential which can be used in planning community development. People have more trust in such organizations.	There is a real risk of not getting a real political support by the government. There are difficulties in establishing mutual relations with government bodies.

No doubt, the choice of the model depends, first of all, on the region's peculiarities, its development, geography and economy. There is no way to determine a standardized development "recipe", uniform for all communities. We would like the communities themselves to find their proper form of managing their development.



Citizen Input

Your task is to identify and formalize the structure and role for your community and then make the citizens aware. Some items to consider include:

- Information gathering and analysis
- Determine the responsibilities of members of the Council
- Establishing goals for development, assign responsibilities
- Define the steps to accomplish each goal and determine expected results
- Hold community meetings or public hearings to gather input and feedback
- Adjust goals and steps based on community input
- Develop recommendations for the city
- Create an implementation plan based on community

- Create an implementation-monitoring plan, determine results and make adjustments. Plans should be monitored at least annually.
- Members from the Council should meet with local commercial banks to determine if financial schemes can be developed for the local entrepreneurs.

Step 3. Appoint Key Personnel for the Council

Once the Coordinating Council has been established it will be necessary to have an organization in the community or a department in the city government to serve as the support to the CC. The work of the support organization (or department) includes:

- Drawing up reports and minutes of each coordinating council meeting
- Selecting, inviting and orienting speakers from outside
- Making copies of all brochures and other materials
- Project logistics

The Working Group can also be assigned with providing technical information, documents, and information enhancing a better understanding of local economy and the role of local government in economy. The documents may include any existing plans of economic development, earlier studies of economic development conducted in the community or region, reports or plans of land use, the strategic plan of the local government body, data on studying environment on or checking resources, etc. you can also discuss the issue of appointing someone to conduct monitoring and coordinating of the current work after the training program is over.

Unfortunately, the common practice is appointing an employee from the Office or from one of the departments as the Working Group. Such people, as a rule, have a lot of everyday routine work of their own, so their participation in the Coordinating Council is yet another burden which does not allow dealing with strategic issues of the Council's development.

Regardless of how the support to the Coordinating Council is provided, the organization or department identified as the working group must work closely with the leaders of the Coordinating Council and be able to make records and reports easily available to the public at large.

The following sections provide an outline of developing the Community Based Economic Development Council!

3.3 Community Based Economic Development Process

As stated in Section 1, Community Based Economic Development is a process by which the leaders of a community, in close consultation with the citizens, identify ways to strengthen the economy of a city, or region. Because the focus is to develop the local economy, the process for creating a CBED strategy is anchored in demand - driven, free-market economic principles.

The most important factor that must be kept in mind is this--*Firms, not local or national governments, create wealth.*

Everything, every action that is deemed a necessary part of your CBED strategy should be oriented toward this statement. That said, there are two important questions for the Coordinating Council for Economic Development to consider.

“Firms, not local or national governments, create wealth.”

- 1. If firms create wealth, what role and what responsibility does the community have in assisting firms accomplish this?*
- 2. How do we, the Coordinating Council, ensure that the investment the community makes in assisting firms create wealth generate a return on the benefit for the citizens?*

There are four critical parts to the Community Based Economic Development process.

Where are you going? What is a realistic future for your community given current conditions. It is very simple, if you are going you will never get there. Equally important have a plan that allows you to use your resources efficiently. No city can afford to waste the limited monetary, human and physical resources at hand. Knowing where you are going also allows you to determine what conditions that exist are true challenges or true advantages. For example, a community that wants to improve its agricultural related economic base does not have to worry if it does not have a great number of tourist activities –restaurants, special events, etc—that attract a leisure clientele. Rather they must ensure that there are transportations systems that can efficiently move wholesale or retail products to a market.

What is the most appropriate sequence of activities? Once a decision has been made as to where you are going as a community, tasks that allow you to move forward must be carefully thought out. More than just setting priorities, the CBED coordinating council must carefully consider if support mechanisms for a goal or objective (regardless of its priority) are in place. For example, if the city administration is required to put a new water line in to attract an industry several steps must be taken in a particular order-cost

estimated; source of funds identified; system designed; access to land acquired; employees trained to operate and maintain the system, and revenues collected to pay. For each of these steps, you will need to determine if you have authority to conduct the step, and if not, who does or how do you get it. This is a very simple example, but very complex to ensure that all issues are considered.

Who will do the work? Most economic development plans never are implemented because there has been no consideration given to who will actually do the work. This is especially important for city administrations, as the staffs must understand what the plan is, how it will change their current responsibilities, how they must work with other members of staff, etc.

How will you know that you are on the right track and when you will arrive? Finally, the most important part of successful community based economic development is identification of benchmarks or indicators that allow the community to see progress made. Beyond just tracking activities it is equally important determine how much money has been spend, how it has been spent and what the impact has been. The link between an activity being completed such as a renovating a building for youth and how much was spent to achieve the result requires that the result be stated and the use of money tracked. The cost of the renovated center compared to the number of youth over time can give the community an opportunity to determine the impact of their investment.

Each of the steps that follow will guide the Community Based Economic Development Coordinating Council answer the questions raised above. There is no right way to do a CBED strategy but a successful strategy and implementation plan will include all of the elements.

This section of the Work Chapter will assist you in answering these two questions?

Step 1. Develop A Community Based Economic Development Strategy

The most efficient way to get somewhere is to know where you are going before you start out. This concept also applies to creating a good Community Based Economic Development Strategy. The next few activities are designed to assist you define “where it is you are going.”

Activity 1. Define Your Community Vision

In the long run, the idea of strategic planning is the community’s purpose, its values, and determining the success. This can be captured in a vision of the community in five years or so. Vision gives a picture of how the community should look like.

Task

For example, one task that many local government use is to generate a picture of your community in five years. Is there a mix of people, smiling, happy, and working productively? Are the streets clean? Are the buildings homes to vibrant business concerns? What kind of jobs do people have? Can you buy what you want? As your vision formulates in your mind, write down a description of it. Share your description with other members of the Council.

Finally, after some discussion, write the Coordinating Council's vision statement.

Activity 2. Generating a Community Image

The image statements provided a focus for the analysis of their community's resources and programs. Further, each statement reflects the existing enterprises, ones which provide an immediate market for small and medium business development.

If viewed within the generally accepted Western civilization values, the image of the city reflects its character. Many times the character reflects the economic base. In the United States, image statement captures the essences of the community in a few short words – “Secret City” – Oak Ridge, TN or “Steel City”—Pittsburgh, Pennsylvania or “Motor City”—Detroit, Michigan.

Task

Write an image statement for your community. Consider the questions below and then write an image statement on the line provided.

- ✓ What do other people think of us?
- ✓ If I was a tourist how would I describe my city?
- ✓ What is the most important characteristic or attribute that I would like everyone to know about my city?

Activity 3. Identify the Challenges you face

No vision becomes a reality without hard work. The hardest work you must undertake is figuring out what challenges you will have to address in order for the future you envisioned to become a reality. Revealing key problems is the most important and responsible stage of strategic planning, as each community and its leaders have their own objectives and unique conditions. This explains active involvement of the public into the public control and revealing the most significant city problems.

Identify at least 5 challenges that will need to be addressed if the community vision is to become a reality. You will do more research on this later, but every community has some glaring issues that must be confronted.

Task

List five challenges you feel are most critical to consider if your community vision is to be realized.

Activity 4. Understand Your Economic Base

An effective economic development strategy must be based on the industries in your community that are most competitive in the market. These are the firms that will be able to grow--generate employment, purchase goods from vendors, and sell products that generate income for public services. You will need to understand what resources—labor, land, capital, raw materials or component parts –are demanded by the firm in order for them to be able to be competitive.

Later, under Step 2 you will do a thorough an exercise that allows you to more scientifically identify the firms in your community that are the strongest part of the economic base. For now, however, it is important to understand a firm from the perspective its production cycle. The following task will assist you in gaining this understanding.

Task

Identify a firm that is located in your community which you consider the most important to the quality of life of citizen. Firms that fit into this category typically are large employers, are large purchasers of goods and materials, and sell their product outside the community .

Next, determine how the product is produced, what are the “factors of production.” For example, if the major product is beer then the following “factors of production” are as follows:

Beer Processing Scheme

- Access to grain, hops, water;
- Glass bottles or aluminum cans
- Beer processing technology
- Brewing machinery
- Transportation equipment to get product to market

Now complete a “factor of production” scheme for the major industry (or industries if there are several) you have identified as the most important part of the local economy.

Firm: _____

Product: _____

Factors of Production: _____



Citizen Input

You now have four very important pieces of information from which to develop your CBED strategic plan—the Vision, the Image, the Major Challenges and the Key Industries. The rest of the work from this point forward will be an analysis of these decisions. A great portion of that analysis will be based on information collect, the next step. However, now is the time to involve the citizens. In Section 2 we discussed the importance of creating a citizens information plan, one that engaged citizens in the process use to create the CBED strategy at critical times. This is one of those critical times.

The Coordinating Council should write a list ways they will involve the citizens in the CBED strategic planning process. At this time, list three ways that the CC will receive input on the Vision, Image, Challenges and the List of Key Industries. In addendum 1 a list of citizen involvement techniques and descriptions of how to utilize them in the information sharing and gather stage of CBED planning are provided.

Step 2. Analyze The Community Resources

Collection of information about the community is the next step in determining what will be required in the strategic plan. You have already given consideration to the future; what you would like to be, what image you project. Getting there however depends on what resources you have now and how they can be used to achieve your vision.

Collecting and processing information to elaborate complex social economic development programs of a municipality, is very important when working with information. This process should not be passive and accidental, information must be collected purposefully. The question is, what information should be collected to be used in elaborating the complex social economic development program.

Remember, the essences of Community Based Economic Development is building a strategy grounded in the existing resources-- human, natural, and institutional-- of the community. All of these are “*Inputs of Production*” process of goods and services. One objective of the Community Based Economic Development Plan is to define ways in which community can bring down the cost of doing business in the city by adding value to the inputs, i.e. improving the skills of labor force, transportation cost of natural resources or interest rates for financing.

Firms basically determine production margins and cost of products by adding up the cost of labor, land and capital⁹. Your strategic plan will have to consider what you do now—as a community—and what you will be required to do in the future to ensure that the cost of these “*Inputs of Production*” allow the business to operate at maximum capacity. To determine what strategy to follow, however, information about inputs of production are required.

The following activities are designed to assist in collecting useful information. One person on the staff of the should be responsible for collecting the information gathered by the Coordinating Council. They may also be the person who will do the analysis of the information (as described in Step 3).



Citizen Input

The Coordinating Council should collect information about the community and companies within the community. This process should be done through personal interviews, by collecting data from the statistical reports, through discussions with community institutions, etc.

Activity 1. Community Profile

Each community has a listing of its assets and government policies, procedures and taxes/fees. An example of such a list probably includes the land and buildings that are available, training and educational institutions, public infrastructure, banks or financial institutions, etc.

However, knowing that you have them, and determining if they are sufficient or appropriate for business development is a more complicated task.

Using the best judgment of the members of the Council, considering information gathered through the company profiles, and relying on any other information you may be able to gather about the community needs for business development, complete the following survey of your community assets, policies, procedures and taxes/fees.

Score	<i>Adequate As Is</i>	<i>Needs Attention</i>	<i>Important for Development completed but inadequate</i>	<i>Comments, information needed or questions regarding the score of the asset or policy.</i>
Asset/Policy or Program				
Commercial Environment				

⁹ Explanations of what constitutes each are:

- a. Labor: skills, education level, work ethic, flexibility
- b. Land: buildings, available utilities, dependable utilities, land availability, ease of transportation, roads
- c. Capital: access to investment capital, interest rates

Private financial capacity				
Public financial capacity and programs				
Commercial resources (support/secondary supply business)				
Educational and training institutions				
Research facilities				
Land and building availability				
Infrastructure / utility availability per land and buildings				
Local Government				
Utility capacity and condition (i.e. electric, gas)				
Infrastructure capacity and condition (sewer, water, etc)				
Capital replacement plans and resources				
Citizen involvement programs				
Business and development regulations and permitting processes				
Budget and financial reporting systems				
License and permitting regulations and process				
Land use regulations				
Financing mechanisms				
Competitive Environment				
Access to raw materials and production inputs				
Access to market				

Descriptive Information

Using the following characteristics, describe your community—its vision and image—in a way that will entice entrepreneurs, people and/or tourist to want to do business, live or visit.

Macro Environment

Demographics

Population trends, growth and decline

Age distribution

Labor Force Characteristics

Income levels/trends (by labor category/gender)

Educational levels (by age group)

Physical Characteristics

Climate

Geographic location

Environmental conditions and constraints

Community Profile

The process of determining the community profile in a city should be preceded by a detailed analysis of the region's peculiarities, resources and potential. Below is good way of developing a spread sheet to define main characteristics of a community:

No.	Category	Characteristics
1.	Physical dimensions and administrative division	
2.	Population	
3.	Climate	
4.	Mineral resources	
5.	Industry	
6.	Transportation infrastructure	
7.	Agriculture	
8.	Education	
9.	Health care	
10.	Culture and art	
11.	Employment	
12.	Small business	
13.	Local mass media	
14.	Political parties	

Activity 2. Economic Profile

Up until now, the words industry, firm, enterprise, and business have been used interchangeable. Before we go any further, it is time to consider the difference between industry / industry sector and firms/enterprises/business. In addition, we also need to think about **Markets**. The only way for a firm to generate wealth is to have a market in which to sell its goods and products. So, let's break down these concepts in to pieces , the relationship between the concepts can be thought of as a chain—in fact it is commonly called “the production supply chain.”

Industry and industrial sectors of the economy are broadly defined. For example the agricultural sector is defined as business and firms or people employed in the work of producing raw materials for production. This includes mining firms and farming. Private and state owned enterprises should be included as well as individual farmers and state owned farms.

Definitions for 9 industrial sectors are provided in the table below. Within any particular industrial sector of the economic there are specializations, for example Detroit, Michigan economy is based on the manufacturing sector and its specialization is the auto industry.

Within the auto industry, there are firms who sell primary goods / markets; secondary goods/markets; and tertiary goods.

Here are definitions for that will help you understand these terms:

- ✓ **Primary firms/ market** : Firms that produce a final product for consumption outside the community (e.g., automobiles, household goods, computer hardware)
- ✓ **Secondary firms/market:** Firms that provide parts or services directly to primary industries (e.g., automobile parts plant, accounting firms, design firms, financial services firms)
- ✓ **Tertiary firms/markets:** Organizations that provide retail and personal services (e.g., clothing stores, golf courses, hair salons).

It is important to distinguish between these concepts because inputs of production of demanded by a **primary industrial** sector must be available at as little cost as possible. Remember your economic development strategy should seek to build on the competitive advantages of the city, or region; one criteria for identifying the competitive advantage is to identify firms that are in the primary firm/market category and for which the greatest number of inputs of production are accessible locally. Firms that provide goods for this are primarily found in the secondary markets.

An example will help to make the relationship between all of these concepts clearer.

DETROIT, MICHIGAN' ECONOMIC PROFILE				
Manufacturing Sector	<i>Automobile industry</i>			
	<i>Primary Market</i>	Automobile Manufacturing	Firms	Ford Motor Company
				GM Motor Company
				Chrysler Motor Company
	<i>Secondary Market</i>	Automobile Parts And Parts Production	Firms	Delco Batteries (car batteries)
				Saginaw Steering Geer
				Gray Iron Steel Manufacturing
	<i>Tertiary Markets</i>	Personal Services for auto assembly labors	Firms	Inexpensive restaurants
				Libraries
				Schools

Economic systems are a mixture of different types of businesses and firms; each being economically linked to each other and grouped in what we now know is an industrial sector. It is important that a community have the appropriate mix of firms and business. In today's global economy, the proximity of an enterprise to their respective market can be the difference between success and failure. The closer the firm is to the purchaser of the good they produce the more profitable they will be.

Now it is time for you to begin to understand the mix of industries , firms and markets within your city or region. For now, determine into which of the industrial sectors you would place the firms located in your community.

Task

- ✓ Gather the names of the major firms/enterprises in your city.
- ✓ On a sheet of paper identify the name of the firm, the industrial sector in which it would be categorized and the number of employees it has. If you have information for different periods of time, for example 1992 and 2002, record both.
- ✓ Tabulate the results of the information on the sheets of paper about firms, record the figure in the table below.

Industrial Sector		Number of Enterprises (state and private)	Employment	As a % of total enterprises	As % of total employment
<p>Economic systems are a mixture of different types of businesses and firms; each being economically linked to each other. It is important that a community have the appropriate mix of firms and business. In today's global economy, the proximity of an enterprise to their respective market can be the difference between success and failure. The closer the firm is to the purchaser of the good they produce the more profitable they will be.</p>					
<p>Mining and Agriculture: Firms or people employed in the work of producing raw materials for production. This includes mining firms and farming. Private and state owned enterprises should be included as well as individual farmers and state owned farms.</p>	Agriculture				
	Extraction				
<p>Construction: Firms and people employed in the work of building structures (housing, commercial buildings, schools, etc.)</p>					
<p>Transportation: Firms and people employed in the work of moving goods, products and people (rail, air, ground such as trucking, buses, air cargo, etc)</p>					
<p>Manufacturing: Firms and people employed in the work of production and processes of goods (food, aluminum, cars, parts for final products such as containers for goods.</p>					
<p>Financial: Firms and people employed in the work of providing financial resources for personal and business use. Examples of types of firms include banks, insurance companies, credit firms, mortgage companies, credit underwriters (purchase loans, mortgages and bonds).</p>					

	Number of Enterprises (state and private)	Employment	As a % of total enterprises	As % of total employment
Production Services: Firms and people employed in the work of providing support to businesses that are engaged in the work of production.				
Personal Services: Firms and people employed in the work of providing support to or selling goods for individual for private use. This would include beauty shops, laundries, household help, retail stores, kiosk, etc.				
Social Services: Institutions, firms and people employed in the work of improving the well being of people, such as health services and education, training (including both private and state run institutions).				
Government: All non-health and education institutions and units of government.				
Total Firms And Employment				

Activity 3. Company Profiles

The Community Based Economic Development Council needs a better understanding of the firms in their community, what they do, how they do it, and what other support businesses might be useful for large firms (or as in tourism for the type of visitors you want to come to your community) and as a result would have a higher possibility of being financially successful.

From the list of companies identified in Activity 2, the Coordinating Council for Economic Development should identify at least 10, but may want to consider 20, enterprises that they will interview. Criteria for selection should include the following:

Established Firm

At least half of companies interviewed should be private firm (or limited partnership)

Vary in size (small, medium and large)

At least 20% of interviews should be of primary firm/market [Remember: primary production firms are ones that sell their product beyond the boundaries of the community in which they are located].

Information Required

Primary Product:

This should be a description of the type of product or service is made or provided.

Economic Sector:

Company should be categorized in to one of the economic sectors as described on the Economic Profile Worksheet.

Number of Employees: Total number of employees

Occupational Profile:

Companies employee different types of labor. It is important to understand the mix; both in who is currently employed and what additional skill types the firm might require. Use the definitions provided below as a guide to filling in the table on the company profile sheet. In the column title "Comments" try to gather information on the types of employee skills most utilized now and will be needed in the future. This will assist in determining the types of training or retraining programs that will be most effective.

Occupation	Description
Management	Directors of divisions or departments of a company
Professional	Financial officers, personnel, doctors, attorneys, accountants, bankers, commercial officers, marketing and advertising, engineers, scientist, etc.
Technical	Researchers, drafting, computer operators and programmers, plumbers, electricians, etc
Supervision	Superintendents of a particular line production function and administrators of a program such as employee benefits or payroll within the personnel department, etc
Production	Machine operators, assemblers, ditch diggers, bank clerks, (skilled, semi-skilled, unskilled labor)
Clerical	cashiers, waiters, waitresses, store clerks, construction, etc. workers Secretaries, receptionist, hostess, etc

Most Required Public Services:

Ask about such items as public safety (policy and fire) power, water, street routes, street maintenance, public transportation, etc.

Most Required Private Services and Goods:

If possible as the person being interviewed about the goods [paper, making parts, tiers for vehicles, etc.] and services [drafting, marketing, cleaning, transportation of goods, etc] that they currently use, but purchase from outside the local community and at what volume they use. Also determine what new goods or services would allow the firm to expand their company or become more profitable.

Sample Information Company Profile Collection Sheet

Name of Company: _____

Address: _____

Key Contact Person: _____

Primary Product: _____

Economic Sector*: _____

Number of Employees: _____

Occupational Profile	Number	Comments
Management		
Technical		
Supervisors		
Production Workers		
Clerical		

Most Required Public Services:

Most Required Private Services and Goods:

Other comments:

Once the information is collected, the road map to guide you over the next several years will be come clearer, more precise and more successful. Analysis of the information is the next step.

Step 3. Development Scenarios and Action Plans

Activity 1. Development Scenarios

It is important to remember that the process of determining development goals is cyclic. First, information fundamental to preliminary assessment of possible ways of development is evaluated. Then, based on the selected data, the economic and social assessment of possible strategic ways of development is made. At this stage, additional information may be needed for a more precise specification.

In determining development goals, measures to conform these goals with the local community must be provided for, as well as with government bodies and local self-government bodies of neighboring municipalities whose interests might be affected.

For a community to develop, development goals should be set. The goals should be selected from a variety, and economically substantiated. The criterion for selecting the goals is the maximum social effect, i.e. the necessity to meet the community population's social needs to the best way possible, with the highest norms and standards. This approach to the development cannot be understood as ignoring objective development norms. This approach presumes a few real development "scenarios", from which the best one is selected and followed. Based on the information acquired at this stage, the most promising ways of developing the economic basis of the complex social economic development of a municipality must be determined. In other words, the following questions need to be answered:

Working out the community's image (profile) must include the following interconnected and mutually agreed-upon positions:

- ✓ Social structure of the community's population, in a mid-term and long-term perspective
- ✓ Structure of employment and jobs in the city's main industries
- ✓ Structure of Gross Domestic Product produced in the city/█, in a mid-term and long-term perspective

The information collected in Step 2 is used to define your Community Based Economic Development Scenarios, and subsequent action plan. There are many ways that can be used to analyze all of the data, however, some simple techniques are provided in this section of the chapter.

Remember, your CBED strategic plan must be built on the economic principle :

FIRMS, NOT GOVERNMENT, GENERATE WEALTH // FIRMS, NOT GOVERNMENT, GENERATE WEALTH

It is logical, therefore, to begin your analysis by identifying those firms which have the potential to generate the most wealth that can benefit your city or region. Some characteristics of a firm or firms that meet this condition are:

- ✓ Employment base is growing
- ✓ Can purchase goods in high volume
- ✓ Is part of a growing sector of the national economy
- ✓ Factors of production are readily available in the community (or have the potential to be)
- ✓ Is included in the major industrial sector and part of the primary or secondary market.

Task

- ✓ Review the list of firms generated from activities completed for creating the economic profile. List those firms that have the characteristics listed above.
- ✓ Record the names of the firms (and their product) in the table

- ✓ After you have created a list of firms that have the most potential for generating wealth, determine what characteristics they have in common.
- ✓ The characteristics should then be used as the base for defining the development scenarios of your CBED strategic plan.
- ✓ Write your development scenarios.

Activity 2. Action Plan

The work on determining development goals may go on continuously, but respective results must be produced at a certain time. Based on these results, the next stage may begin – the stage of elaborating the concept and development program for the next planned cycle.

The work on determining development goals must also include (apart from setting goals) other kinds of work connected with this main task of this stage. They are: determining the means of achieving the goals, based on the available resources; determining interim goals and guiding lines, allowing a quantitative assessment of conforming to the development program.

Naturally, the terms and periods of the stages must be tied up with the budgeting process.

To elaborate larger, and more complicated programs of complex social and economic development, the concept of this program needs to be worked out first.

Task

Two work sheets are provided that will help you develop an action plan.

- a. Work sheet one should be used to identify all of the task or steps that must be taken in order for the development scenario to become real. You should also record detailed information about the activities and steps. Questions to help you in the information gathering are provided as a guide. A work sheet should be completed for each development scenario.

Some questions you might ask each other when identifying activities.

- ? Title to all parcels of land is soundly based in law
- ? Land sales and transactions are recorded in a way in which the legal title and other significant legal interests can be proven with reasonable speed and cost
- ? Access to capital financing based upon an effective mortgage system is available through a commercial banking system
- ? There are no undue statutory or fiscal constraints on transactions
- ? Expertise is available to advise on legal, valuation, and other issues affecting the land

- ? Local government builds public-private partnerships for land development
- ? Local government uses its zoning powers to steer development
- ? Attracting Investment
- ? Constantly ask yourself the question, “What must the local government do to attract investment?”
- ? Develop and implement plans to ensure that the legal and regulatory environments are conducive to investment
- ? Set a regulatory regime that ensures transparent prices for services
- ? Ensure that quality services are provided at fair price to ensure comparative advantage for investors in the local economy
- ? Utilize assets (especially land and property) to trigger investment opportunities

b. After completing the information gathering stage for all of the activities/task and steps you have determined are necessary to take for each scenario, you will now need to merge all of the information into a comprehensive action plan.

A few words about doing this. First determine the criteria that your Coordinating Council will use to prioritize items. The list of questions provided on Work sheet one can be used to help set priorities. Once the activities have been prioritized, a time from in which the activity can be implemented should be set.

Eventually, the priorities set in the action plan can be used to provide guidance to a city as it develops its annual budget.

The completion of worksheet 2 is your Community Based Economic Development action plan. Once you have completed all of the steps listed in Section 2, it is time for more citizen involvement.



Citizen Input

The community as a whole needs to be informed about the CBED strategic plan. You have already worked with the citizens to gain more insight on the vision, image and challenges. The same or similar methods of citizen involvement should be used to get the acquire the same insight on the development scenarios and the action plan.

One important task at this at this point is to record everything that has been done, creating a document that the citizens can review. Once consensus has been reached, the document should be treated as the covenant between be the Coordinating council and the citizens. The next step is implementation.

DEVELOPMENT SCENARIO ACTION PLANS

Work sheet One. Information Gathering Sheets

DEVELOPMENT SCENARIO		
Activity	1	
	TASK/	a
	STEPS	b
	2	
	TASK/	a
	STEPS	b
	3	
	Task/	A
	Steps	B
	4	
	Task/	A
	Steps	B
PERSON RESPONSIBLE FOR COLLECTING INFORMATION		

Questions to consider for each activity and task/step:

- TIME FRAME – WHAT IS A REALISTIC AMOUNT OF TIME TO COMPLETE THE ACTIVITY
- Does some other action or step need to happen first?
- WHAT OTHER INFORMATION IS NEED TO DETERMINE WHAT ACTION TO TAKE
- Who will the action impact/effect [this group of people should be included in the discussions about the actions].

- How much will it cost (consider administration, enforcement, capital cost, operating cost, etc)

- Sources of possible funding:
 - a) Private companies
 - b) Banks
 - c) State government
 - d) International funds

COMPREHENSIVE ACTION PLAN

Development Scenarios			
1.	ACTIVITY	SCHEDULE FOR IMPLEMENTATION	
		6 MONTHS	1 YEAR
2	ACTIVITY	SCHEDULE FOR IMPLEMENTATION	
		6 MONTHS	1 YEAR
3	ACTIVITY	SCHEDULE FOR IMPLEMENTATION	
		6 MONTHS	1 YEAR
4	ACTIVITY	SCHEDULE FOR IMPLEMENTATION	
		6 MONTHS	1 YEAR

Step 4. Implementation of CBED

There are two important aspects of implementation of the CBED strategy and work plan.

- Defining the role and structure of the Coordinating Council for Economic Development.
- Integration of the work plan into the city budget and organizational responsibilities.

City Activities

The Community Based Economic Development Strategy and Work Plan is to be implemented by various institutions within the city however, a large share of the work will have to be done by the city government.

The city will need to consider how he or she will meet this challenge.

Administrations

Response:

Organization

Which initiatives will require assistance from administration?

How will administration respond: directly or indirect through contracts?

Which departments will be impacted and how?

What new functions will be added

What changes in staff assignments are needed?

Which staff can be assigned?

Budget

How to use the CBED results as a budget policy statement?

How to integrate the new initiatives into the current budget?

What funds are available?

What results will be achieved?

Ways to monitor and measure results?

How CBED Results Can Be Utilized by the Community

The Community can use the CBED process to present their ideas to the executive or representative bodies. Oftentimes, even innovative and advanced ideas stumble, as they do not reach the leadership of the executive or representative bodies only because they lack support at their implementation level; and this happens because of lack of interest in certain issues, or just because of not understanding the essence of the issue by an official to whom the suggestion was addressed. Working through the Coordinating Councils, citizens will have more opportunities to have their ideas listened to; after the working body processes them, they will be forwarded on to the CC working group, and announced to the

community's leaders. Moreover, working through the CC, citizens will have an opportunity to shape their idea into a specific program, which could be taken into account by the executive and representative bodies during the budgeting process.

The Administration, making the process more open and transparent, will gain popular support. Moreover, the population realizing their share in making decisions, will be more tolerant to the process of implementing certain decisions and to possible mistakes. The CC, in its turn, will become for the administration a good indicator of the attitudes existing in the community.

4.1 Conclusion

The development of this book came from the U.S. and Russian communities around nuclear weapons facilities need to create viable economic development program to diversify and open the cities' economies to ensure that each city can become economically self-sufficient. The transformation is not one that occurs overnight. Instead it is one that can create jobs over a long-term period by developing an environment that fosters opportunity.

The transition in the U.S. and Russia is vastly different. The politics of the countries has also been vastly different. However, the goals of the cities are now similar – more independence and ensuring that the community's quality of life remains the same or improves. Transitioning cities are defining their futures and working towards those goals. The transition is a difficult process, however, by utilizing lessons learned and models of successful and innovative transition utilizing the local communities assets. The transition from a closed city to a open an prosperous city can be successful.

Local governments can start businesses to create jobs, but we have learned that these are usually short term propositions that need to subsidized to exist. Instead, local governments can succeed by utiiaing the tools set forth in this book and the examples for creating long-term economic development by utilizing the assets in the community to create jobs.

A key aspect of any economic development is community based activities that are supported by the community to assist the local government to succeed in creating a positive living and working environment for its citizens and business. This activity is a long-term endeavor that pays off over time.

Further, the business environment and the opportunities change constantly. As many of the U.S. communities have found that

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